Innovation

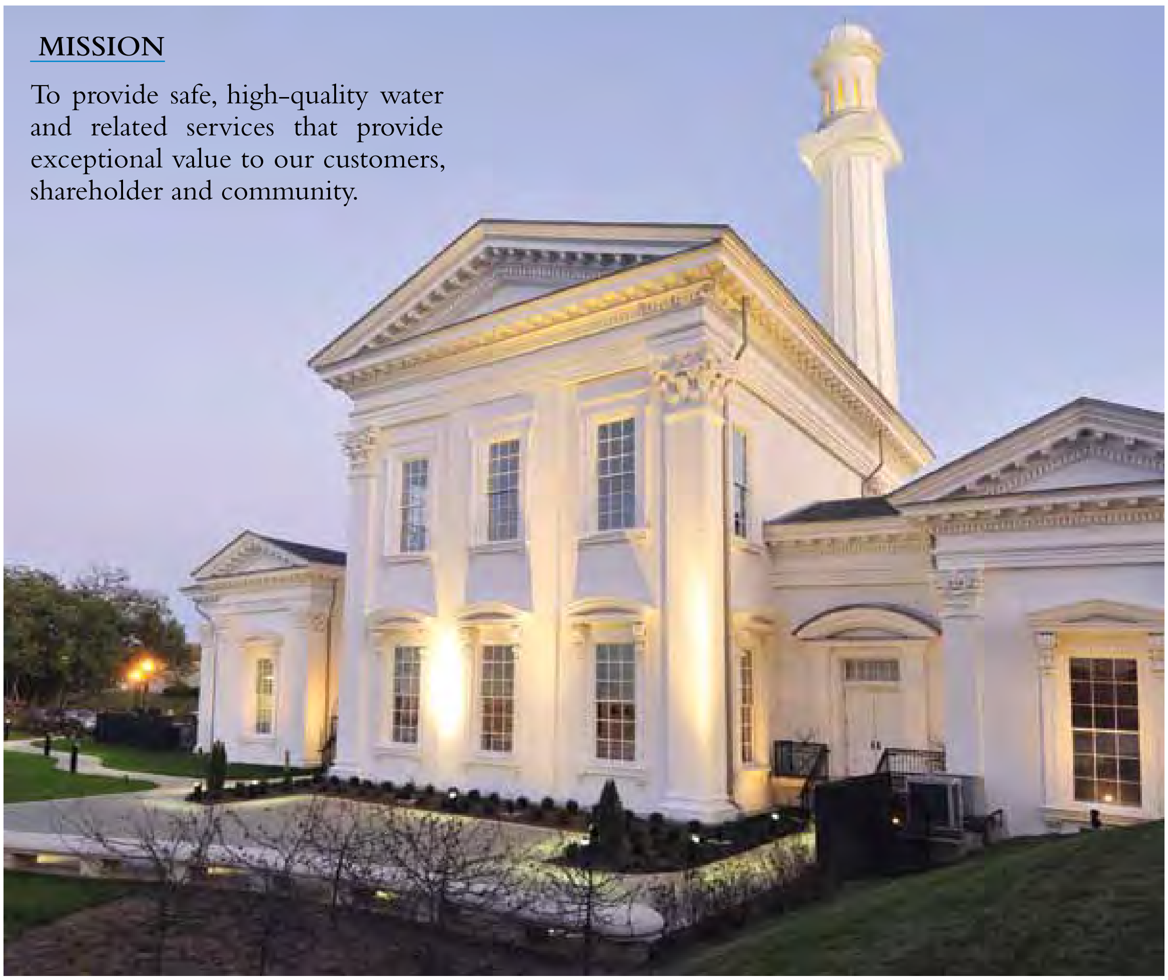
LOUISVILLE
WATER
COMPANY
2011 ANNUAL
REPORT

LOUISVILLE WATER since 1854

Louisville Water provides drinking water to 850,000 people in Louisville Metro and parts of Bullitt, Nelson, Oldham, Shelby and Spencer counties. In 2011, Louisville Water delivered an average of 120 million gallons of water every day through 4,115 miles of water main. The customer base also includes wholesale contracts to Lebanon Junction, Mount Washington, North Nelson Water District, North Shelby Water Company, Taylorsville and West Shelby Water District. Louisville Water operates two treatment plants; the Crescent Hill Filtration Plant has a capacity of 180 million gallons per day and the B.E. Payne Water Treatment Plant has a capacity of 60 million gallons per day. Louisville Water draws water directly from the Ohio River and in the aquifer through a riverbank filtration system.

MISSION

To provide safe, high-quality water and related services that provide exceptional value to our customers, shareholder and community.



VISION

Louisville Water will remain the water supplier of choice throughout the region by:

- Providing the best-of-class quality, customer service and value
- Expanding the geographic areas we serve
- Creating new lines of business building on existing competencies

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President's Message

I'm pleased to provide you with Louisville Water Company's 2011 Annual Report. Innovation has defined our company since 1860 and we continued that spirit in 2011. Our scientists and engineers developed new ideas that not only improve the quality of our product but lay the foundation for others to follow.

We experienced extraordinary success in 2011 in the midst of tremendous challenges that included record rainfall, historic water main breaks and a struggling economy. Louisville Water provided a $32 million value to our owner, exceeded the nation's strict water quality standards and expanded the scope of our services in neighboring communities.

WEATHER AND A STRUGGLING ECONOMY

Louisville Water continues to operate in the midst of a struggling economy. While the number of customers grew by 2,000 accounts, water consumption lagged at 35.8 billion gallons, the lowest since 1992. During 2011, we installed just 3.6 miles of new water main compared to 48 miles in 2006.

Of course, our sales are directly tied to the weather and Louisville set a yearly rainfall record in 2011 of 68.02 inches. The National Weather Service noted 133 days of measurable precipitation. The spring season was especially troublesome in April when the Ohio River rose seven feet above flood stage. The rainy season continued into the late summer and fall when we typically see higher sales with irrigation. The average daily pumping for 2011 was 120.6 million gallons, 5% below the five-year average daily pumping of 126.9 million gallons.

Throughout the year, we implemented a focused approach to reduce the capital and operations/maintenance budgets and to evaluate open positions. While we ended the year $6 million under budget in operating revenue, we met our obligations to our owner with a dividend of $18 million.

STEWARDSHIP AND RECOGNITION

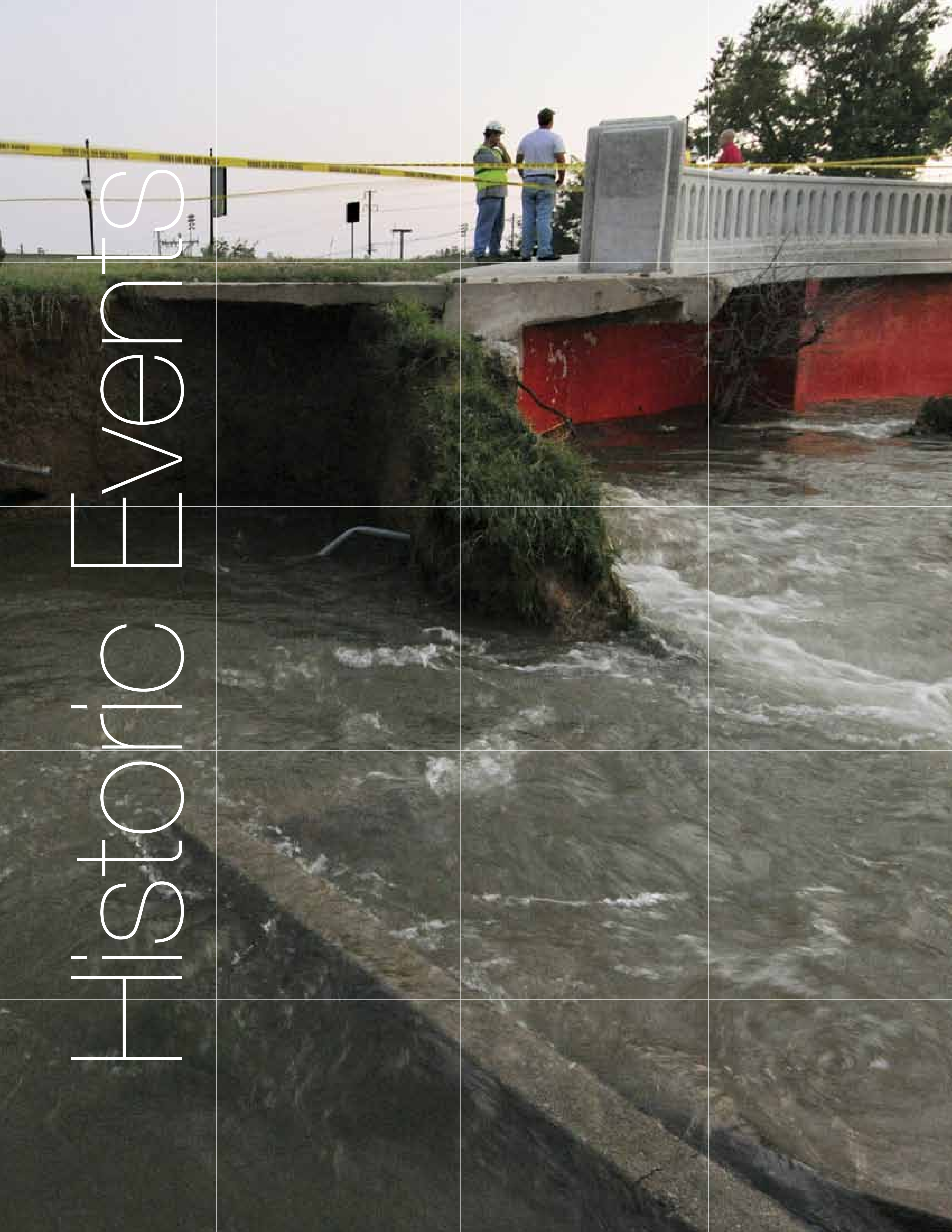
Our employees continue to give back to the community with nearly 6,000 service hours. Republic Bank's "We Care" award highlighted our work in improving the quality of life in our community. Customer service is at the core of our operations and I was especially pleased that the Better Business Bureau noted our excellence in ethical business practices with a regional "Torch Award." Our innovation in delivering water with the Riverbank Filtration project earned international recognition when the American Society of Civil engineers honored Louisville Water with the "Outstanding Civil Engineering Achievement" award.

As you read through the 2011 Annual Report, you'll see numerous examples of how our innovation improves the product we deliver and the communities we serve. Louisville Water is a lifeline to this region providing a safe and high-quality supply of drinking water every day.

Greg C. Heitzman

Greg C. Heitzman, President/CEO, Louisville Water Company

Historic Events



Historic Events

Jim Brammell,
Vice President, Chief Engineer

Two historic breaks on a major transmission main highlighted the critical importance of water mains that transport drinking water. The breaks occurred exactly one month apart in July and August on the same 48-inch cast iron transmission main.

JULY 11 BREAK

The first break occurred Monday, July 11 near the intersection of Eastern Parkway and Arthur Street on the University of Louisville campus. The break occurred directly beneath a portion of the foundation for the Eastern Parkway overpass, and in a matter of minutes, millions of gallons of water spilled onto the streets. Louisville Water crews immediately mobilized along with support from local firefighters, police, the Mayor's office, Louisville Gas & Electric, the Metropolitan Sewer District and others. Due to the flooded conditions, it was difficult to find all of the necessary valves to stop the water flow. We achieved complete shut-off and fully restored water service the following morning. Approximately 70 million gallons of water had been released in the 14 hours after the break.

This cast iron water main was installed in 1930 and was cleaned and cement-lined in 1989. The main is a major transmission line which supplies distribution mains throughout the city and is a key artery for moving water between the Crescent Hill Filtration Plant and the Cardinal Hill Reservoir.

CUSTOMER IMPACT

Because of the redundancy of our system, only a small number of customers were without water for a short time. But the impact on local businesses was significant. Throughout the hours after the break, Louisville Water worked with the Louisville Fire Department to provide emergency pumping of cooling water to maintain a center that provides phone service throughout the service area. The University campus was closed on Tuesday, July 12 as were several restaurants and downtown businesses.

Approximately 70 million gallons of water poured from the broken main

Site of the main break was under an overpass on Eastern Parkway

Engineer Keith Coombs inspects the 48-inch main on the UofL campus

Large Photo: Emergency Responders inspect the damage after a 48-inch water main break

The break was one of the largest in our company's 151-year history and received extensive local and national news coverage. Fortunately, no one was injured. There was substantial damage near the break including a University soccer field and 26 cars that were damaged or destroyed.

The sudden loss of pressure required a Boil Water Advisory for 25,000 customers that was not entirely lifted until July 14. This event occurred during one of the hottest days of the summer and although customers had water, boiling it was an inconvenience. The day after the break, we staged a water distribution at Papa John's Cardinal Stadium. Kroger donated two semi-trailer loads of bottled water and Equipment Depot loaned a forklift and operator to move the pallets. Customers lined up to receive over 24,000 bottles of water.

REPAIRS

We began repairs on July 14 with contractor MAC Construction & Excavating, Inc. performing the work. Demolition included the removal of the conflicting bridge foundation that sat directly on top of the damaged water main. The project was closely coordinated with the Kentucky Transportation Cabinet and University officials. Since Eastern Parkway is a historic Olmsted Parkway, demolition of the foundation over the main required State Historic Preservation Office approval. The demolition was completed by July 16 and we began to replace 40 feet of the main. We completed installing the pipe on July 29 and on August 2 the disinfection process had begun.

AUGUST 11 BREAK

Exactly one month from the first break, a second break occurred on August 11. The location of the break near Eastern Parkway and Crittenden Drive was just a quarter of a mile from the July 11 event. The force collapsed part of Eastern Parkway and ruptured a natural gas line. Louisville Water crews

Louisville Water staged a water distribution the day after the break

Crews distributed over 24,000 bottles of water

Site of the second break on the 48-inch main were able to isolate the main within two hours since key valves were accessible. The gas main was isolated in approximately four hours.

The customer impact in this instance was not as profound. Approximately 400 customers were under a Boil Water Advisory for nearly two days and 12 customers were temporarily without water due to an eight-inch water main that was also broken by the 48-inch main break.

REPAIRS

There were some unexpected moments on the morning after the break when a large oak tree located on the edge of the 60-foot wide pit fell. No one was injured. Louisville Metro Parks' crews cut up and removed the large tree.

As Southern Pipeline Construction Inc. mobilized for repairs, initial work included stabilizing the site to protect the foundation of a home on Eastern Parkway. We removed approximately 40-feet of damaged main by August 16 and began installing new pipe. The repaired main was refilled and disinfected by August 21. We completed our work at this site by September 5 which included repairing a joint leak that was discovered just east of the break site.

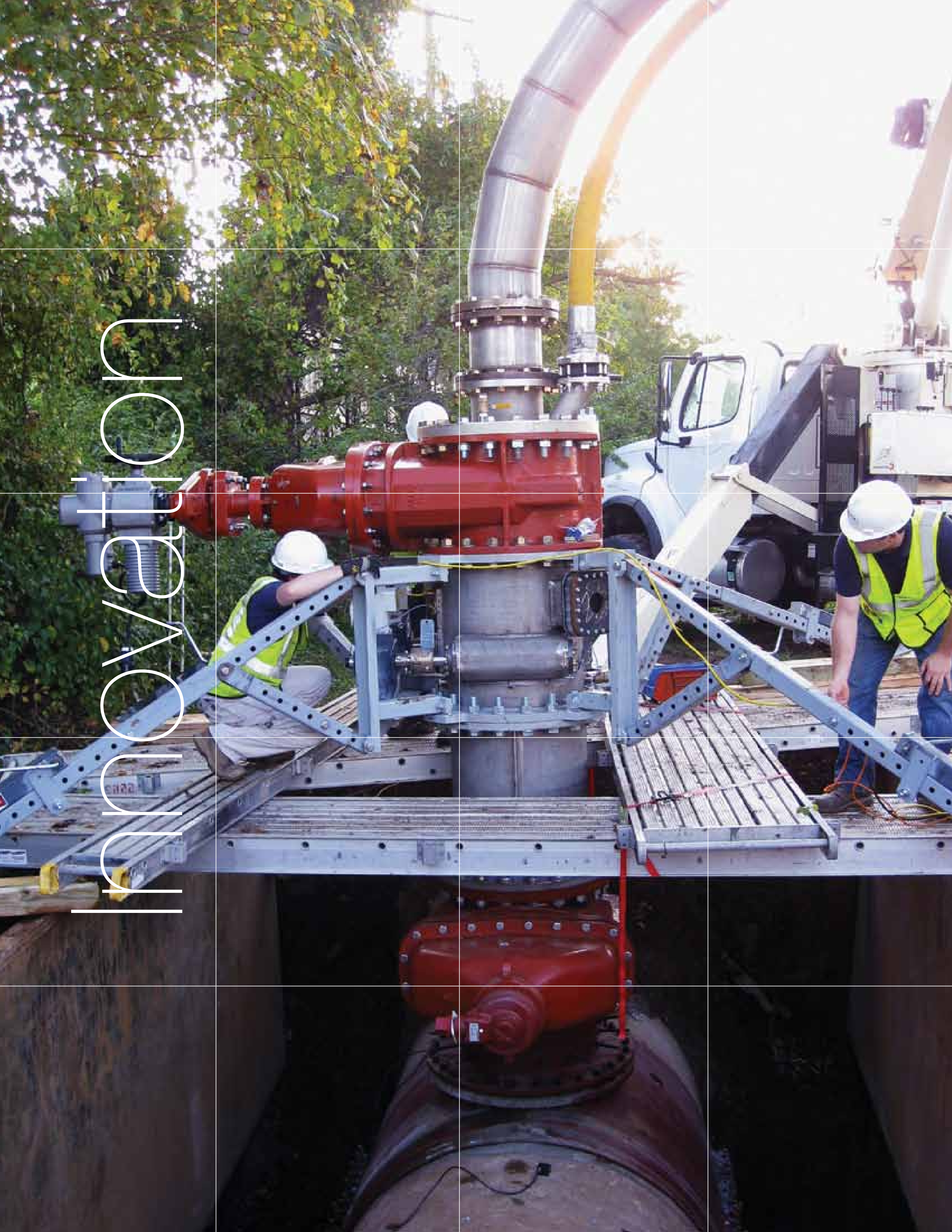
This section of the 48-inch main was installed in 1923 and had been cleaned and cement lined in 1989. While we are able to assess the condition of much of the water main in our system, the technology for cast iron main is not as developed. Louisville Water engineers are reviewing available technology and are looking to incorporate electronic leak detection for this type of main in the future.

A large tree fell into the pit of the main break

Crews install a new section of 48-inch water main along Eastern Parkway

The restored site of the August 11 main break

innovation



Innovative Inspection

A free-swimming electromagnetic device provided our first opportunity to closely examine a large diameter transmission main while it was filled with water and in service. This innovative inspection is part of Louisville Water's continuing effort to assess transmission mains—pipes that are larger than 20-inches in diameter.

The effort in 2011 focused on pre-stressed concrete cylinder pipe (PCCP) which accounts for over 50% of the 200 miles of transmission main in our distribution system.

The technology, called "PipeDiver," allowed us to inspect a critical supply line, a 60-inch PCCP in northeastern Jefferson County. PipeDiver is neutrally buoyant and uses the flow of water to push it through the main. As the device travels, it produces an electromagnetic field that is amplified by the wires around the pipe. A receiver records the signal and data analysis identifies sections of distressed pipe.

Louisville Water used PipeDiver to assess eight miles of the main and the analysis quickly identified sections that needed repairs. With intense coordination and planning, we made the repairs without interrupting service and mitigated a potential failure risk.

The technology to assess large diameter PCCP was just recently developed and until this opportunity, all inspections of a large transmission main required the main to be empty and out of service. As the technology advances, Louisville Water will use these innovative approaches to carefully assess the remaining 100 miles of transmission main that include cast and ductile iron, steel and reinforced concrete.

The Transmission Inspection Program complements an effort we began in the 1980s that focuses on distribution water mains. The Main Replacement and Rehabilitation Program is an aggressive approach to reduce the number of main breaks and improve service, water quality and fire flow. Since 1992, we've invested over $145 million to rehabilitate or replace almost 500 miles of pipe. This program is ongoing with $5 million allocated in 2011 to replace eight miles of distribution main.

The tube to retrieve PipeDiver from the water main is assembled offsite.

The launch tube is placed on top of the 60-inch main.

After traveling eight miles through a pressurized water main, PipeDiver is removed.

Large Photo: Crews prepare to inspect one of Louisville Water's largest transmission mains using a new tool called "PipeDiver"

Renovation

Renovation

The last projects necessary to complete the rehabilitation and upgrade of the Crescent Hill Filtration Plant were under contract and construction was underway during 2011. Upon completion, the 102 year-old plant will have received a complete facelift. The improvements allow us to continue exceeding the strict drinking-water standards established by the Environmental Protection Agency.

The largest project is renovating 15 filters in the east gallery and installing a robust backwash system which uses a water and air scour system to clean the more efficient filter media. Integral to the backwash system is a two-million gallon elevated tank that will closely resemble the tank that was part of the plant's original operations in 1909. This $36.4 million project will be completed in 2012 and the original tank removed.

Renovation of the six-basin softening complex continued through 2011. This $24.2 million project will replace mechanical equipment, lighting, handrails and repair concrete. The project also provides secondary coagulation which is important to meet future water quality regulations.

The former chlorine containment building is being renovated as part of the coagulant feed and chemical upgrade storage project. Since installing on-site chlorine generation in 2010, we no longer need space for chlorine rail storage. This $5.2 million project was nearly 50% complete at year's end. Work to update the north coagulation basin complex begins in early 2012 with a budget of $8.5 million.

When Louisville Water completes these projects in 2013, we will have invested nearly $90 million to re-build our original treatment facility. The end result will provide additional treatment barriers and once again demonstrate our long history of innovation.

Alex McClanahan adjusts the chlorine feed

Refurbished softening basins

New elevated tank will be finished in 2012

Pam Booher collects a water quality sample

Large Photo: The Crescent Hill water tank, in the background, is being replaced with a new one (foreground) that closely resembles the original structure.

Riverbank Filtration

Best in the World

Louisville Water's solution to provide customers with a cleaner source of water was recognized as the "best in the world" for engineering skills.

The American Society of Civil Engineers honored Louisville Water with its "2011 Outstanding Civil Engineering Achievement Award" for the Riverbank Filtration project. Established in 1960, the award honors projects that best illustrate engineering feats that contribute to society and civil engineering progress. The international recognition is a great honor for Louisville Water and our industry and places the company in an elite class of engineering projects that include the restoration of the Statue of Liberty and the Golden Gate Bridge.

During 2011, the B.E. Payne Plant transitioned to relying solely on Riverbank Filtration to provide the source water, drawing an average of 31 million gallons a day from a tunnel and well system deep in the aquifer. The ground water, which primarily comes from the Ohio River, is naturally filtered in the aquifer and requires less conventional treatment. Collector wells capture the water from deep underground and into a tunnel. Then, pumps bring the water from the tunnel to the treatment plant. Louisville Water is the first in the world to combine a tunnel with collector well technology as a source for drinking water.

The first year of operations for the tunnel and well system was a success. The excellent and consistent water quality has reduced and eliminated some of the chemicals required for treatment. Plus, Riverbank Filtration has eliminated many variables with the surface water of the Ohio River such as temperature swings and taste and odor issues.

Riverbank Filtration allowed Louisville Water to accomplish advanced treatment with a "green" solution. We're currently evaluating advanced treatment options at the Crescent Hill Filtration Plant and will make a decision in 2012.

The Riverbank Filtration project is at the B.E. Payne Treatment Plant.

Electric pumps pull the water from the tunnel

Representatives of Louisville Water, Jacobs Engineering and Reynolds accept the Outstanding Civil Engineering Achievement Award

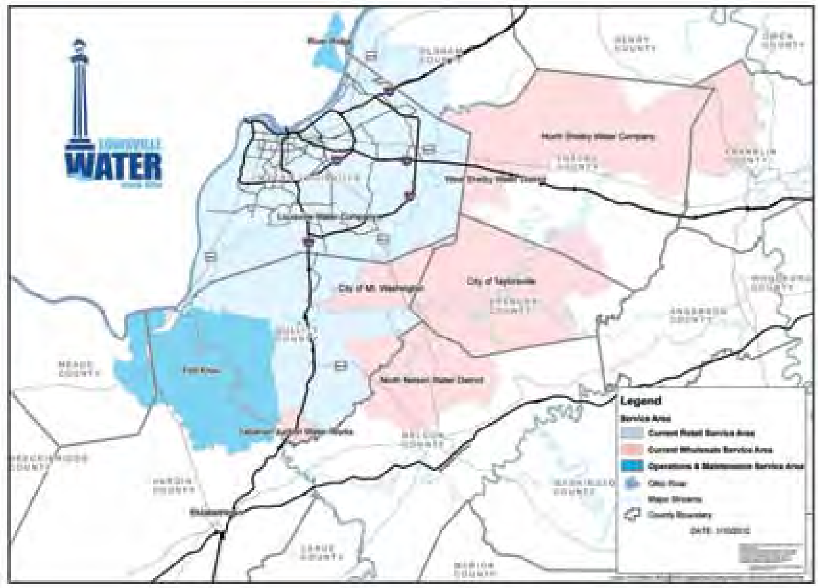
Large Photo: Louisville Water's Kay Ball, Jim Brammell and Greg Heitzman stand inside the completed Riverbank Filtration tunnel with Steve Holterman of Jacobs Engineering.

New Opportunities

Louisville Water is a partner in initiatives that provide water supply solutions for neighboring communities and lay the foundation for economic growth.

SOUTHERN INDIANA

In March, the Indiana Department of Natural Resources selected River Ridge Development Authority (RRDA) as operator of the Charlestown State Park/ River Ridge Commerce Center drinking water system. Louisville Water is a partner with RRDA. We are operating the water treatment plant and overseeing water quality compliance.



Louisville Water's Regional Partners

River Ridge Commerce Center is a 6,000 acre business park located along the Ohio River in Clark County, Indiana at the site of the former Indiana Army Ammunition Plant. The system includes a treatment plant, pumping and storage facilities and 12 miles of water main.

FORT KNOX WATER SYSTEM

An announcement from the Department of Defense in September marked the success of a three-year effort with Hardin County Water District 1 (HCWD1). The Defense Logistics Agency /Energy awarded ownership of the Fort Knox water system to HCWD1 with Louisville Water as a partner. HCWD1 will operate and maintain the distribution systems; Louisville Water will operate two water treatment plants on the Fort Knox post and receive a monthly management fee.

The agreement also calls for closing one of the treatment plants within five years due to its condition. We will install a transmission main from our system that will allow HCWD1 to purchase water for the Fort Knox operations and other parts of its service area.

BULLITT COUNTY

During 2011, Louisville Water completed four miles of a 16-inch transmission main along Highway 245 in Bullitt County, to provide a second supply of water to the North Nelson Water District and create capacity for future growth. This work also provided the opportunity to create a community walking trail. Through easement negotiations with Bernheim Forest and the Kentucky Transportation Cabinet, we secured the necessary land and helped construct the path that will open in 2012.

Progress

Customers have improved water pressure and fire flow with the completion of several projects in 2011. Engineers completed the first phase of work in the new 690 elevated pressure zone which extends along the Interstate 65 corridor from south central Jefferson County to Shepherdsville. Crews installed 7.6 miles of water main and completed a booster pumping station. The second phase, currently under construction, includes a new water storage tank in Shepherdsville.

The 900 pressure zone includes customers in eastern Jefferson County and wholesale customers to the east. Crews completed an elevated storage tank at the Shelby County line, installed five miles of 36-inch transmission main along Interstate 64 and constructed a booster pumping station. Our customers have seen an immediate improvement in water pressure. The work also positions Louisville Water to provide an additional water supply to the east.

BULLITT COUNTY EXTENSION PROGRAM

Louisville Water officially ended the Bullitt County Extension Program on December 31, 2011, marking the success of a 10-year effort to improve water service in the former Kentucky Turnpike Districts No. 1 and 2 in Bullitt County.

When Louisville Water merged with these districts in 2000, the agreement outlined a number of initiatives. During the past 10 years, we've installed over 175 miles of new transmission and water mains, installed 609 fire hydrants and initiated a program to provide over 1,800 homes and businesses access to Louisville Water. The investment exceeds $56 million.

The Bullitt County Advisory Board helped oversee the 10-year-effort. Now that the extension program has concluded, this board will be reorganized and continue to provide input on water-related matters for Bullitt County customers. We'll also continue to work with Bullitt County Fiscal Court to pursue grant funding for additional improvements.

Several years after the merger of Shepherdsville Water with Louisville Water, we have equalized customer water rates. The Shepherdsville Advisory Board will be dissolved; this community will be represented on the new Bullitt County Advisory Board.

New elevated tank provides storage and fire protection in Bullitt County

A new water main is installed in Bullitt County

Shanaka Ewing examines engineering plans

Customer Focus

Service & Reliability

Dave Vogel
Vice President,
Customer Service

Service is at the core of our operations. Monthly surveys continue to show the majority of Louisville Water customers are extremely satisfied with the service we provide.

IMPROVING CUSTOMER SERVICE

The Customer Assistance Program, which helps those who have trouble paying their water bill, provided funds to 704 families. Launched in April 2010, this program provides funding to three community organizations that screen and qualify applicants and then transmit pledges. We fund this program with 10% of the revenues, $52,000, from our water-line protection program. Home Serve USA, the company that offers the water-line protection, contributed $12,000 in 2011.

Extensive research culminated in the approval of a $15.7 million capital project to replace an aging customer information and work management system. This multi-year program incorporates Oracle-based software for our Customer Care and Billing, Mobile Work Force Management and Work Asset Management functions. The project's first phase will be complete in 2014.

FOCUS ON SAFETY

A heightened focus on safety continues to achieve great results. We met overall OSHA recordable injury and preventable motor vehicle accident safety goals. Louisville Water managers now perform weekly safety meetings with field crews and routine safety audits. The Kentucky/Tennessee section of the American Water Works selected Louisville Water as the 2011 recipient of the Class III Safety Award.

RELIABILITY

Maintaining nearly 24,000 public fire hydrants is a priority for our crews. In 2011, 99.9% of the hydrants were available at any time. With over 4,100 miles of water main, breaks occur nearly every day. We saw a 25% drop in the number of main breaks in 2011, resulting in 610 breaks for the year. The mild December weather was a large factor in the decrease.

Jennifer Elhafyani answers questions in the Customer Care Center

Chad Harper and Jerry Palin repair a fire hydrant

Nik Wohlleb and George Reed construct a large-meter vault

Large Photo: Raymond White works to repair a water main


Louisville pure tap®

Louisville pure tap®

In 1996, Louisville Water was the first—and still possibly the only—water utility to brand its public water supply. In 2011, we celebrated the 15th anniversary of the "Louisville pure tap®" campaign, a grass-roots effort to promote the quality, reliability and value of Louisville's drinking water.

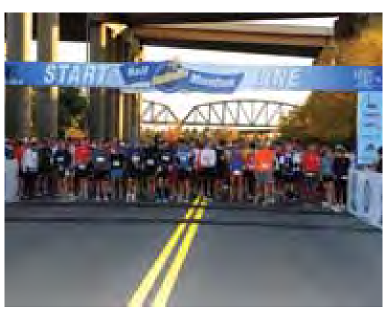
On the 15th anniversary, the logo has a fresh look and an elevated message on the value Louisville pure tap® provides. As a "green solution," Louisville Water offers a reusable BPA-free bottle plus pitchers, coolers and compostable cups. The company's engineers have even developed a portable "fill station" that provides an ongoing supply of Louisville pure tap® at outdoor events.

The Louisville pure tap® program connects the community. In 2011, over 800 organizations—including schools, churches, businesses, not-for-profits and festivals utilized the campaign.

The education aspect of the program has evolved too. In partnership with Jefferson County Public Schools, Louisville Water is helping implement a new federal nutrition law that mandates tap water is available for free during lunch. Signage and posters in over 150 lunchrooms identify Louisville pure tap® fill stations. This effort will expand in 2012 at facilities across our service area as an opportunity to highlight the quality and value of our drinking water.

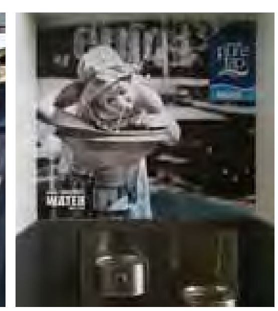
The new arena in Louisville also includes signage and identifiers at each water fountain. In November, a partnership with the Louisville Sports Commission launched the "Louisville pure tap® 5k" and Half-Marathon. These signature events promote the importance of Louisville pure tap® to a healthy lifestyle.


Field Elementary students proudly hold their Louisville pure tap® bottles



Start of the Louisville pure tap® 5k


Louisville pure tap® TO GO provides an ongoing supply of chilled water, straight from the water main.


Water fountains at the city's new arena endorse Louisville pure tap®

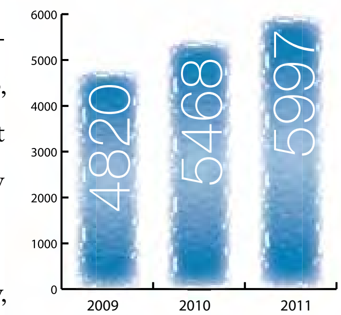
Large Photo: Camper fills his Louisville pure tap® bottle at the Louisville Zoo

Quality of Life

Quality Water…Quality of Life

Since the quality of our product connects the community, it's important for Louisville Water to be engaged as well.

In 2011, employees volunteered nearly 6,000 hours to 120 organizations throughout the community. We continued a focus on stewardship, initiated in 2009, to engage all managers and senior leadership in entities that complement our mission. Since then, the number of volunteer hours has steadily increased.



Employee Service Hours

A Combined Giving Campaign benefiting three organizations: Metro United Way, Fund for the Arts and Water For People set a new record in 2011 with employee contributions exceeding $180,000.

Louisville Water was one of seven area businesses honored for community engagement. Republic Bank's "We Care" award highlighted our philanthropic endeavors that are tied to public health, science and innovation.

Over 240 children have a new smile, thanks to Smile Kentucky!, our dental health partnership with UofL School of Dentistry, Louisville Dental Society and 20 other community organizations. The program visited schools in Jefferson, Bullitt, Marion, Nelson, Shelby, Spencer and Washington Counties. Louisville Water coordinates the education aspect of Smile Kentucky! that reaches over 17,000 children annually.

We concluded an exhibit on our history and the value of water at the Frazier History Museum. Nearly 20,000 visitors experienced "Water Works," an interactive exhibit that highlighted the need for a safe drinking water supply in our community and around the world. A special event on World Water Day showcased our discoveries in filtration and the work by EDGE Outreach to deliver safe drinking water in other parts of the world.


Mike Davis helps a student tap a water main at Kentucky Construction Career Day


These girls wait for a dental screening with Smile Kentucky!


Greg Heitzman, Amber Halloran, Carl Blanton and Ed Chestnut accept the "We Care" award from Republic Bank president Steve Trager.


Mark Hogg with EDGE Outreach takes part in World Water Day

Large Photo: Channa Newman demonstrates proper brushing as part of Smile Kentucky!

Education

One drop of water opens a world of learning

Maybe it's a peek inside the historic Water Tower, a close-up view of a prehistoric rock or the discovery that water has "sticky" properties. Whatever the experience, Louisville Water's education program brings science and social studies to life for children and adults.

ADVENTURES IN WATER

During 2011, over 40,000 children at 124 schools took part in Adventures in Water programming. The experience included a classroom experiment on water treatment or the properties of water or a tour of the original and current pumping facilities.

Partnerships with cultural attractions offer teachers a unique opportunity outside the classroom. In 2011, "Water Wonders" debuted on the Spirit of Jefferson. Students cruised along the Ohio River collecting water samples and learning about the river's history. Targeted at 4th and 5th graders, Water Wonders is a collaborative effort among Louisville Water, MSD, Riverworks Discovery and the Belle of Louisville/Spirit of Jefferson.

Another new partnership with the Kentucky Show!, a multi-media production that highlights the state's history, reached 22 schools with joint programming.

TOUR THE TOWER

Curious about the operations of an old steam engine or perhaps you'd like to step inside the historic Water Tower?

"Tour the Tower," a guided walk through Louisville Water's original and current facilities at Zorn Avenue provides an overview of our 150-year history and a glimpse at how we make drinking water. This program debuted in 2011 following the conclusion of restoration projects on the exterior of the original Pumping Station and Water Tower.

A collection of archival photographs and artifacts took center stage at the National Rural Water Expo in Louisville. Over 10,000 guests from across the United States visited an exhibit at the Kentucky Exposition Center.

Visitors are intrigued with a mud pump from Louisville Water's history collection

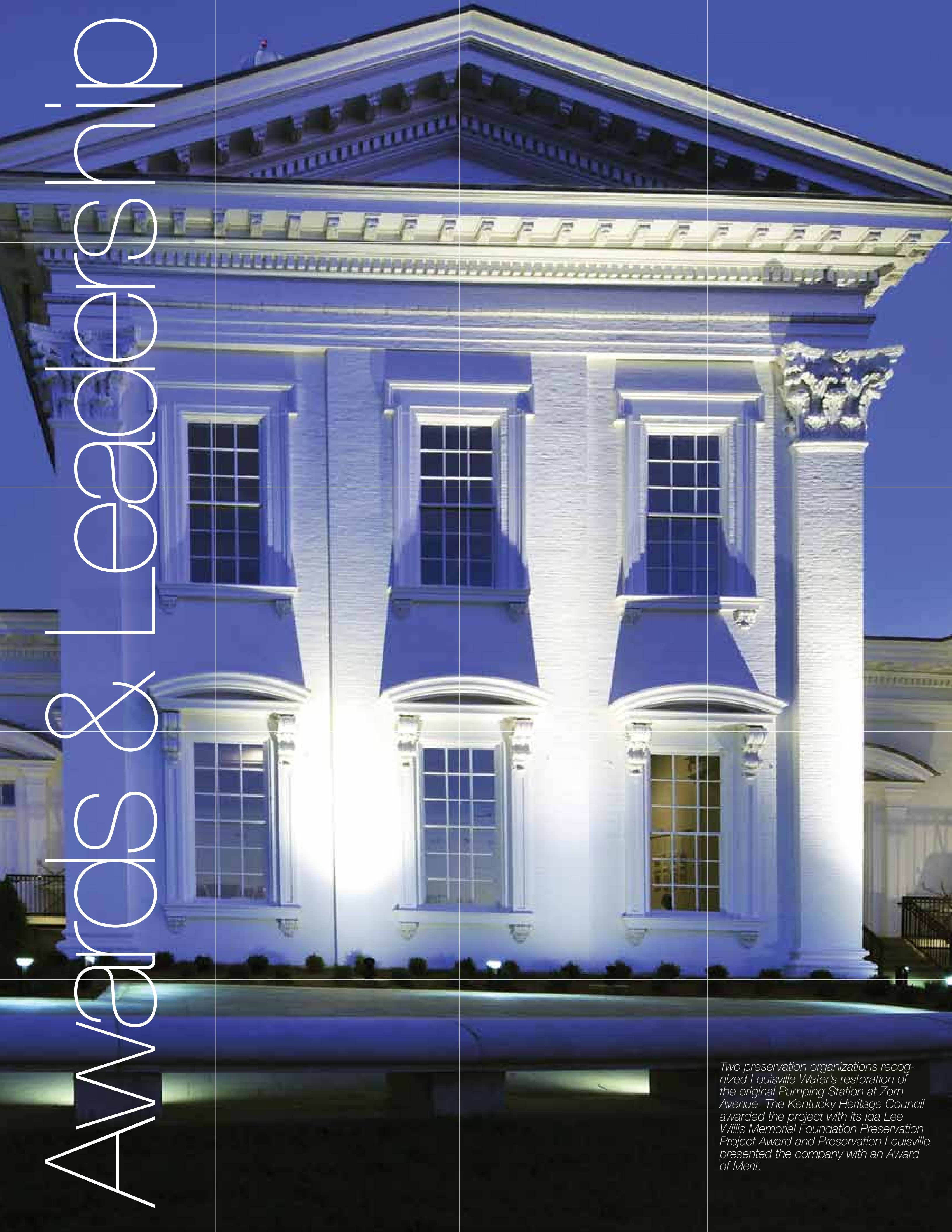
Education programs include "real-world" examples of science and social studies

Over 1,000 people participated in Tour the Tower events

A "floating classroom" provides the perfect backdrop to learn about water

Science comes to life for over 40,000 students with Louisville Water's education programs

Awards & Leadership



Two preservation organizations recognized Louisville Water's restoration of the original Pumping Station at Zorn Avenue. The Kentucky Heritage Council awarded the project with its Ida Lee Willis Memorial Foundation Preservation Project Award and Preservation Louisville presented the company with an Award of Merit.

Awards & Community Leadership

ACHIEVEMENT AWARDS

American Public Works Association Roadeo, 2nd place - *Raymond White, Phil Henry, Shawn Shaw, Nik Wohlleb and Mike Davis*

American Society of Civil Engineers, Outstanding Civil Engineering Achievement Award for the Riverbank Filtration Project

Better Business Bureau Torch Award for Marketplace Ethics, Medium-size Business

Independent Publisher Book Awards, Southeast Region Silver Medalist for Non-Fiction *Water Works, by Kelley Dearing Smith*

Kentucky Historical Society, State Winner for Class D Education – The Society recognized "Water Works" an exhibit created in partnership with the Frazier History Museum

Kentucky Section of the American Society of Civil Engineers, Robert M. Gillim Professional Recognition Award - *Greg Heitzman*

Kentucky/Tennessee American Water Works Association (AWWA), Outstanding Plant Operations Award for >10 million gallons per day

Kentucky/Tennessee AWWA, Safety Award

Lyndon Fire District Civilian Meritorious Service Medal - *Randy Mingus*

Republic Bank "We Care" Award, Printing & Manufacturing Category

BOARDS/COMMISSIONS

American Red Cross Louisville Area Chapter Board - *Dave Vogel, Director*

American Society of Civil Engineers, Kentucky Chapter Board of Governors - *Daniel Tegene, President*

American Society of Mechanical Engineers, Louisville Chapter - *Ralph McCord, Vice-chair*

Association of Metropolitan Water Agencies Board - *Greg Heitzman, member*

AWWA National Finance and Accounting Management Controls Committee - *Amber Halloran, Chair*

AWWA Research Foundation Board - *Greg Heitzman, Trustee*

Bellarmine University Alumni Board - *Scott Worthington, Director*

Better Business Bureau Board - *Greg Heitzman, Director*

Boy Scouts of America, Lincoln Heritage Council Board - *Greg Heitzman, Director*

Bridgehaven Board of Directors - *Roger LeMaster, member*

Business Diversity Network - *Johnnie Rice, Vice-Chair*

Center for Women and Families Board - *Barbara Dickens, Director*

Court Appointed Special Advocates for Children (CASA) Board - *Dave Vogel, member*

EDGE Outreach Advisory Board - *Greg Heitzman, member*

Fairdale High School Construction Trade Advisory Board - *Spencer Bruce, member*

Fund for the Arts Board - *Greg Heitzman, Director*

Jefferson County Cooperative Extension Service Council - *Marsha Meyer, President*

Geospatial Information & Technology Association Indiana/Kentucky/Ohio Board - *James Bates, member*

Greater Louisville Inc. Board - *Greg Heitzman, Director*

Institute of Electrical and Electronics Engineers – Louisville Section - *Larry Bryant, Chair*

Interlink Counseling Services Treatment Center Board - *Brian Bobbitt, member*

International Facility Management Association – Greater Louisville Chapter - *James Mok, President*

Ivy Tech Community College Industrial Technology Advisory Cmte. - *Bonnie Gimbel, member*

Jefferson Community & Technical College Engineering Technology Advisory Cmte. - *Bonnie Gimbel, member*

Kentuckiana Construction Users Council - *David Simmons, member*

Kentucky 811 Board - *Harold Hunt, member*

Kentucky Chapter of Hazardous Materials Managers Board - *Ralph McCord, Director*

Kentucky Derby Festival Board - *Jim Brammell, Director*

Kentucky Industry Liaison Group Steering Cmte. - *Kathy Schroeder, member*

Kentucky Labor Relations Board - *Billy Meeks, Director*

Kentuckiana Regional Planning and Development Agency, Water Management Council - *Jim Brammell, Chair*

Kentuckiana Regional Planning and Development Agency, Bullitt Co. Water Management Council - *Jim Grunow, member*

Kentuckiana Regional Planning and Development Agency, Oldham Co. Water Management Council - *Jim Smith, member*

Kentucky/Tennessee Section of AWWA - *Kay Ball, Chair*

Kentucky/Tennessee Section of AWWA, Diversity Committee - *Daniel Tegene, Vice-chair*

Kentucky/Tennessee Section of AWWA, Water Utility Council - *Vince Guenthner, Chair*

Kentucky Water / Wastewater Agency Response Network - *Glen Mudd, Vice-chair*

Leadership Kentucky Foundation Executive Board - *Barbara Dickens, member*

Lincoln Foundation Board - *Ed Chestnut, Trustee*

Louisville Better Business Bureau Board - *Greg Heitzman, Director*

Louisville/Jefferson County Information Consortium (LOJIC) Policy Board - *Jim Brammell & Greg Heitzman, members*

Louisville Metro Animal Services Board - *Amber Halloran, Treasurer & Jim Brammell, member*

Louisville Metro Merit Board - *Barbara Dickens, member*

Louisville/Southern Indiana Regional Leadership Coalition Board - *Greg Heitzman, member*

Louisville Sports Commission Board - *Amber Halloran, Director*

Metro United Way Board - *Billy Meeks, Director*

Ohio River Valley Water Sanitation Commission, Water Users Advisory Committee - *Jack Wang*

Salvation Army Louisville Area Command Advisory Board - *Kim Reed, member*

Urban Renewal Commission – Housing Development Board - *Lisa Ogburn, member*

UofL Center for Infrastructure Research Advisory Board - *Jim Brammell & Jim Smith, members*

UofL Center for Labor / Management Advisory Board - *Kathy Schroeder, member*

UofL School of Public Health and Information Sciences Advisory Board - *Jim Brammell, member*

Financial Performance—Operations

Amber Halloran
Vice President, Treasurer

Louisville Water experienced a challenging year in 2011. A focused approach allowed us to provide an 8.2% return to our shareholder, maintain our strong credit rating in a sluggish economy and continue our emphasis on a producing a quality product and investing in our infrastructure.

Two events had a marked impact on our financial operations. First, a record 68 inches of rain fell in 2011, the highest yearly total on record since 1871. Water sales are directly tied to the weather and consumption in 2011 was 35.8 billion gallons, 2.3 billion below 2010. Next, two breaks on one of the largest transmission mains in our system pushed expenses higher than anticipated. Claims for damages and clean-up were approximately $1.2 million.

An average water rate increase of 3.75% on January 1, 2011 helped offset the revenue decline as well as a concentrated effort to reduce expenses. We provided a dividend to our sole shareholder, Lousiville Metro of $18.0 million, free water and fire protection of $14.6 million and met all bondholder obligations.

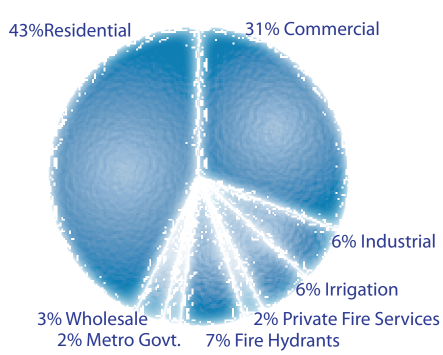
Louisville Water continues to offer a good value to our customers. The average monthly water bill continues to be one of the lowest in the region, costing 73-cents a day.

SALE OF WATER REVENUE ANALYSIS

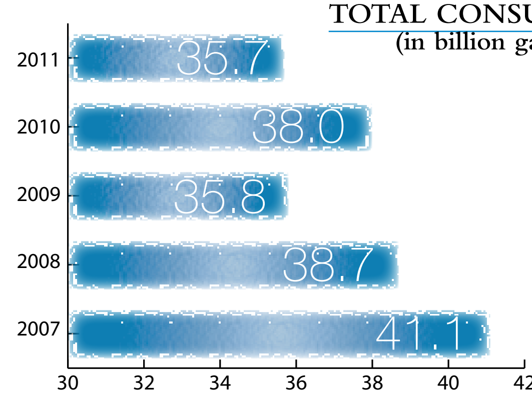
Louisville Water Company

	Number of Customers At December 31		Consumption - YTD (1000) Gallons		Revenue - YTD (in 000's)	
	2011	2010	2011	2010	2011	2010
Residential	240,715	240,505	14,037,669	15,003,116	$ 59,418	$ 60,013
Commercial	22,466	22,546	13,226,076	13,753,584	42,857	44,367
Industrial	304	310	3,271,324	3,587,835	8,166	8,532
Irrigation	10,830	10,111	2,024,156	2,395,478	8,728	8,403
Fire Services & Fire Hydrants	4,167	5,020	36,397	32,601	2,393	2,673
Public Fire Hydrants	23,734	21,480	-	-	10,724	9,348
Metro Government	647	649	1,270,488	1,404,163	3,899	3,838
Wholesale	6	6	1,789,790	1,820,246	3,229	3,146
GRAND TOTALS	302,869	300,627	35,655,900	37,997,023	$139,414	$140,320

2011 WATER REVENUE



TOTAL CONSUMPTION
(in billion gallons)



OPERATIONS

(in millions of gallons)

	2007	2008	2009	2010	2011
Water Delivered to Mains (Net System Delivery)	48,817	47,460	44,476	46,234	44,036
Average Daily Pumpage	136	132	124	128	122
Maximum Daily Pumpage	197	180	157	173	**188
Percent of Water Metered	85%	82%	82%	83%	82%
Average Residential Monthly Water Bill*	$18.40	$19.78	$20.87	$21.80	$22.62

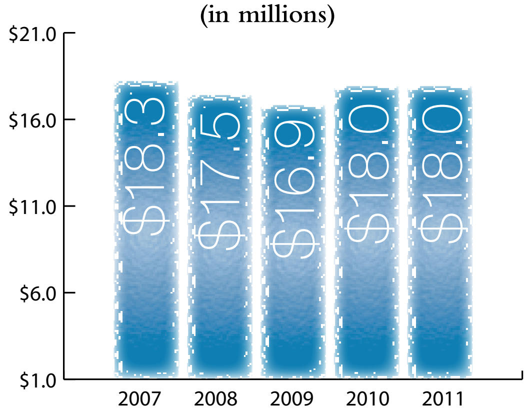
**Based upon median usage of 6,000 gallons per month*
*** July 12, the 48 inch main break at UofL occurred*

HISTORICAL REVIEW (000'S)

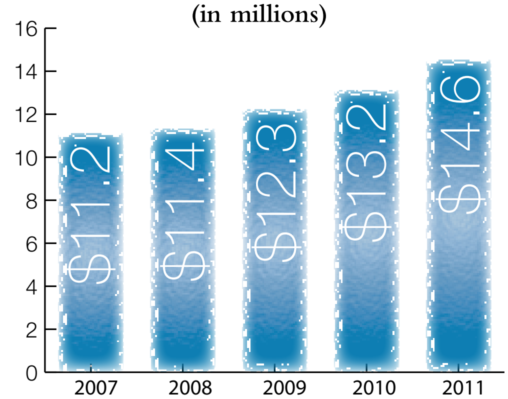
	2007	2008	2009	2010	2011
Operating Revenues*	$132,399	$137,128	$136,224	$148,366	$148,193
Total Operating Expenses*	$89,213	$93,500	$94,266	$99,455	$105,441
Net Non-Operating Income (Expenses)*	$(2,559)	$(4,386)	$(4,542)	$(7,403)	$(7,933)
Net Income before distributions, contributions and extraordinary items	$40,627	$39,242	$37,416	$41,508	$34,819

**These categories re-stated to better reflect revenue/expense categories*

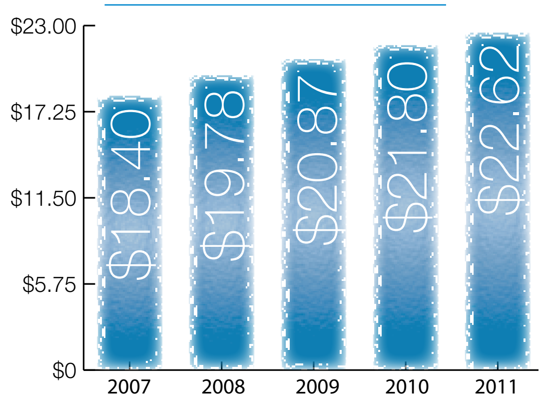
DIVIDENDS DECLARED
(in millions)



WATER & FIRE SERVICE PROVIDED IN LIEU OF TAXES
(in millions)

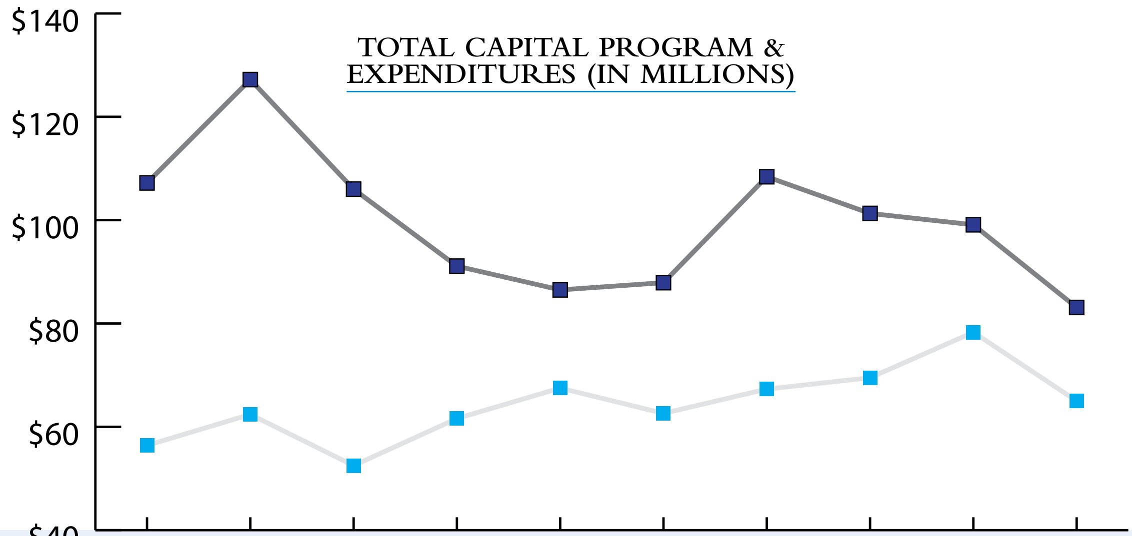


AVERAGE RESIDENTIAL MONTHLY WATER BILL



Financial Performance—Capital

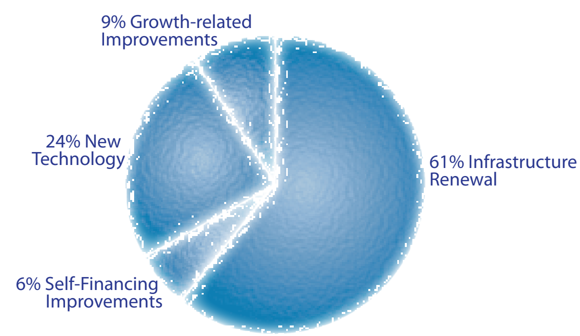
While Louisville Water has reduced its capital program over the past few years, the company has also improved execution. The expenditures closely align with the capital allocation.



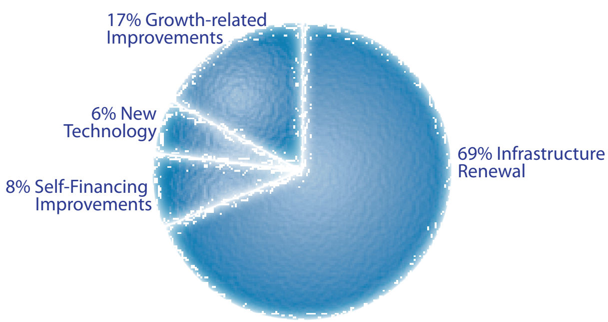
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Capital Programs	$107.2	$127.2	$106.0	$91.1	$86.5	$87.9	$108.4	$101.3	$99.1	$83.1
Expenditures	$56.4	$62.4	$52.5	$61.6	$67.5	$62.6	$67.3	$69.5	$78.3	$65.0

2012 CAPITAL IMPROVEMENT PLAN

Louisville Water's commitment in maintaining our assets is reflected in the percentage of the capital program dedicated to infrastructure renewal.

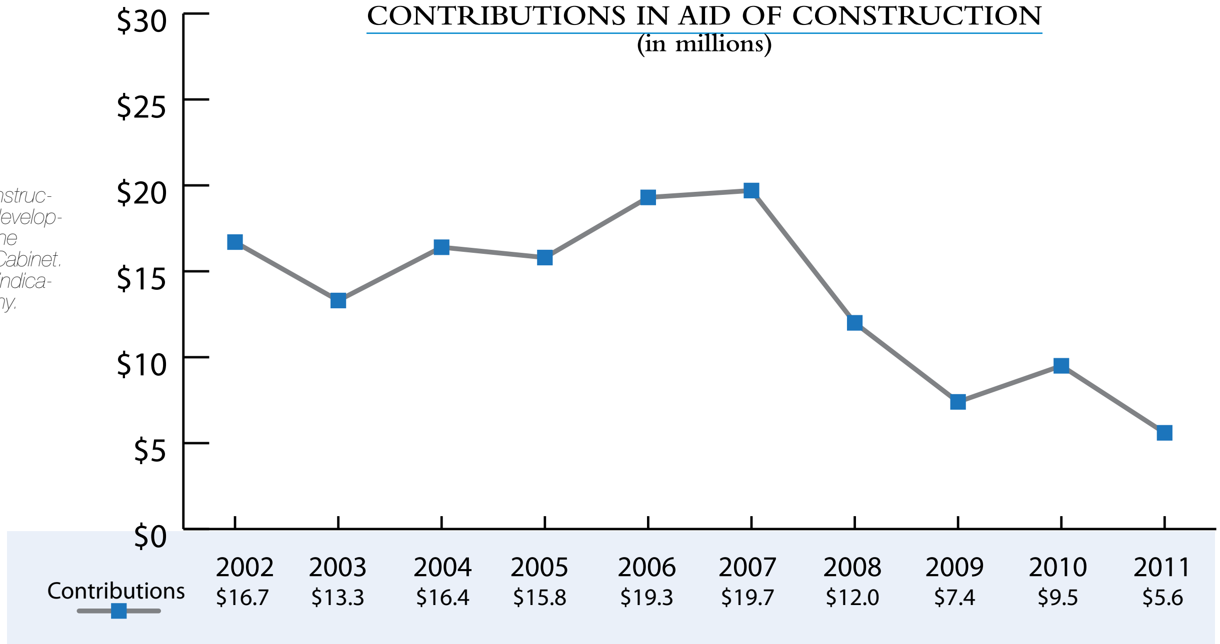


2011 CAPITAL IMPROVEMENT PLAN

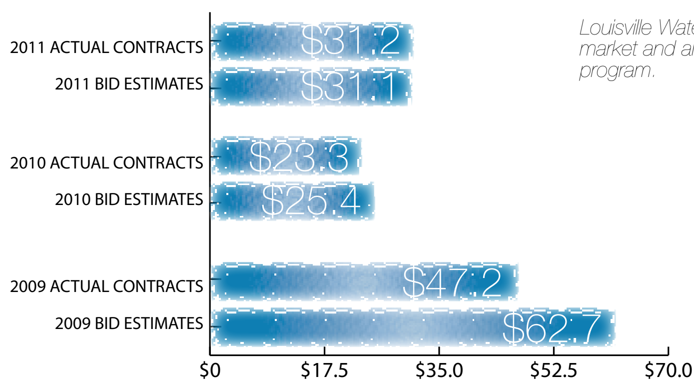


CONTRIBUTIONS IN AID OF CONSTRUCTION
(in millions)

Contributions in aid of construction come primarily from developers and entities such as the Kentucky Transportation Cabinet. The continuing decline is indicative of the current economy.



CAPITAL BIDS
(in millions) Estimates versus actual contracts



Louisville Water's bid estimates have adjusted to the market and also match the reduction in the capital program.

Dan Schenkenfelder and Phil Henry install a large meter vault.

Innovation and Excellence

WATER QUALITY DISCOVERIES

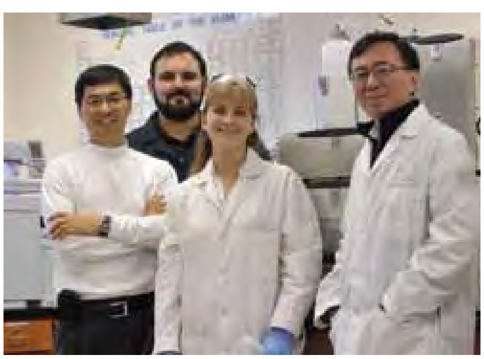
Research by Louisville Water scientists in 2011 is drawing national attention. Our scientists identified a practical approach to reduce Chromium 6 levels in drinking water. Currently, the Environmental Protection Agency (EPA) regulates Total Chromium and Louisville's drinking water levels are 90% below the federal regulation. As the EPA conducts research to determine if it will create a regulation standard for Chromium 6, a component of Total Chromium, our scientists discovered a simple modification in the treatment process can reduce Chromium 6 levels to below 0.1 parts per billion. While each utility's treatment process is unique, our research can help others understand how to effectively manage water quality.

PRESERVING OUR HISTORY

The exhibit Louisville Water created in partnership with the Frazier History Museum to mark 150 years of operations was recognized by the Kentucky Historical Society. The organization awarded "Water Works" with its 2011 Education Award for large-scale projects. The pieces from this exhibit will be on display again in 2013 as part of the "Water Works Museum" at our original pumping station. We will begin a restoration on the interior of the National Historic Landmark in 2012.

EXCELLENT SERVICE

Doing business the right way starts at the top at Louisville Water and filters down to all 420 employees. The Better Business Bureau (BBB) serving Louisville, Southern Indiana and Western Kentucky named Louisville Water its winner for the 2011 Torch Award for Marketplace Ethics in the medium-size business category. This annual recognition recognizes businesses that maintain a solid commitment to conducting business in an ethical fashion. The BBB noted Louisville Water's focus on quality, value and excellent customer service.



Dr. Rengao Song, Chris Bobay, Emily Fritz and Dr. Eric Zhu conducted Louisville Water's research.

The Water Works exhibit engaged children and adults in our history

President and CEO Greg Heitzman and Board of Water Works Chair Marita Willis accept the Torch Award.

REPORT OF INDEPENDENT AUDITORS

Board of Water Works
Louisville Water Company
Louisville, Kentucky

We have audited the accompanying statements of net assets of Louisville Water Company (the "Company") as of December 31, 2011 and 2010, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Louisville Water Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisville Water Company as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 30 through 36 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Louisville Water Company's financial statements. The supplemental schedules of investments, bond issues, bond indebtedness and annual debt service requirements, and operation and maintenance expenses and taxes are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The supplemental schedules of investments, bond issues, bond indebtedness and annual debt service requirements, and operation and maintenance expenses and taxes have been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Crowe Horwath LLP

Crowe Horwath LLP
Louisville, Kentucky
March 22, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2011 and 2010

The following discussion and analysis of Louisville Water Company's (the "Company" or "Louisville Water") financial performance provides an overview of the Company's financial activities for the fiscal year ended December 31, 2011 as compared with the prior year. Please read it in conjunction with the President's Message and the Treasurer's Letter at the front of this report and the Company's financial statements which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts: Management's Discussion and Analysis, Financial Statements and Supplemental Information. The Financial Statements also include notes that explain in more detail some of the information in the Financial Statements. The statements are followed by a section of Supplemental Information that further explains and supports the information in the Financial Statements. The Financial Statements of the Company report information about the Company using accounting methods similar to those used by private sector water utility companies, except for the reporting of contributions in aid of construction, equity capital and retained earnings. For financial reporting purposes, the Company is considered a Special-purpose Government Engaged Only in Business-type Activities. These statements offer short and long term financial information about its activities.

The Statement of Net Assets includes all of the Company's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Company creditors (liabilities). It also provides the basis for evaluating the capital structure of the Company and assessing the liquidity and financial flexibility of the Company.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Company's operations in meeting financial objectives over the past year and can be used to determine whether the Company has successfully recovered all of its costs through its water rates and other charges, has earned a profit and has maintained credit-worthiness.

The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Company's cash receipts, cash payments, net changes in cash resulting from operations, investing, and financing activities, and to provide information on the sources and uses of cash and the changes in cash balances during the year.

SUMMARY OF 2011 PERFORMANCE

Louisville Water experienced a challenging year in 2011. Louisville experienced the wettest year of recorded history with a total rainfall of 68.0 inches compared to the five year average of 51.5 inches. Additionally, the entire industry is experiencing changes in consumption patterns related to the economy, low flow plumbing fixtures and a general conservation of resources. With this unfavorable variance to budget in water revenue, a focused effort was required to reduce operating expenses without sacrificing our commitment to a safe, reliable water supply while still meeting our obligations to bondholders and our shareholder, Louisville Metro Government ("Louisville Metro"). The Company also experienced two catastrophic 48-inch transmission main breaks which caused considerable property damage. Overall, while managing through the lower consumption patterns and increased expenses for the main breaks, total year end net income before distributions and contributions totaled $34,819,381 and resulted in a return for our shareholder of 8.2%. Louisville Water provided a dividend of $18,009,198 and free water and fire protection of $14,660,297 for a total shareholder value of $32,669,495. Throughout the challenging year, Louisville Water continued to provide safe, reliable water at reasonable rates to our customers and a competitive return to our shareholder, Louisville Metro. In December 2009, Louisville Water was upgraded to AAA by Standard and Poor's and recalibrated to Aaa by Moody's in May of 2010.

FINANCIAL HIGHLIGHTS

- Total Net Assets increased by $22,424,531 or 2.9%, primarily due to increases in Utility Plant due to investment in the water system and a decrease in liabilities.
- Operating Revenues decreased by $173,386 or 0.1%, due to decreased sales over 2010 due to the record rainfall in 2011. Water sales in 2011 of 35.7 billion gallons were 2.3 billion gallons or 6.2% below 2010 sales of 38.0 billion gallons.
- Operating Expenses increased by $5,985,391 or 6.0%, due to increases in Operations and Maintenance, Depreciation Expenses, and Water and Fire Service Provided in Lieu of Taxes.
- Net Non-Operating Expenses increased by $530,339 or 7.2%. This is primarily due to increased interest expense on the 2009 Bond issue.
- Net Income before dividends decreased by $6,689,116 or 16.1% primarily due to decreased operating revenue and increased expenses in 2011.
- Dividends Paid and Payable decreased by $40,173 or 0.2% due to a decrease in net income.

STATEMENT OF NET ASSETS

Total Net Assets increased by $22,424,531 or 2.9% in 2011 (see Figure 1). The largest portion of Net Assets is Net Utility Plant, which increased by $36,454,289 in 2011 through capital improvements. The capital improvements were funded by the 2009 bond issue, cash generated from operations and by Contributions in Aid of Construction from developers, customers, and governmental agencies. Noncurrent Assets increased by $10,804,866 primarily due to a note receivable from our shareholder, Louisville Metro. Current Assets decreased by $34,647,619 primarily due to the spending of the proceeds from our 2009 bond sale. Current Liabilities increased by $7,529,307 due to an increase in bonds payable for a large principal payment due in 2012. Long-term Liabilities decreased by $17,342,302 due to bond principal payments due in 2012. Long-term liabilities are discussed in more detail in the section titled Debt Administration.

FIGURE 1 – CONDENSED STATEMENT OF NET ASSETS

	2011	2010	Difference	Percent	2009
Current Assets	$ 67,205,131	$ 101,852,750	$ (34,647,619)	(34.0%)	$ 38,054,231
Noncurrent Assets	100,620,419	89,815,553	10,804,866	12.0%	170,618,932
Net Utility Plant	956,045,464	919,591,175	36,454,289	4.0%	869,163,121
Total Assets	1,123,871,014	1,111,259,478	12,611,536	1.1%	1,077,836,284
Current Liabilities	52,657,394	45,128,087	7,529,307	16.7%	35,450,637
Long-Term Liabilities	270,729,177	288,071,479	(17,342,302)	(6.0%)	297,327,873
Total Liabilities	323,386,571	333,199,566	(9,812,995)	(2.9%)	332,778,510
Total Net Assets	$ 800,484,443	$ 778,059,912	$ 22,424,531	2.9%	$ 745,057,774

2010 COMPARED TO 2009

Total Net Assets increased by $33,002,138 or 4.4% in 2010 compared to 2009. This was primarily due to the increase in Net Utility Plant due to capital investment in our infrastructure.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Operating Revenues decreased by $173,386 or 0.1% in 2011 (see Figure 2). Total water consumption decreased by 2.3 billion gallons or 6.2% in 2011. The decrease relates to a record amount of rainfall in Louisville during the irrigation season of 2011 compared to a hot, dry summer in 2010. This decrease in consumption was offset by a 3.75% increase in water rates effective January 1, 2011.

Operating Expenses increased by $5,985,391 or 6.0% in 2011. The key components of operating expenses are: Operation and Maintenance Expenses, Depreciation and Amortization Expenses, Taxes and Water Service Provided in Lieu of Taxes, and Loss on Disposition of Assets. Operation and Maintenance Expenses increased $3,623,341 due to increased labor, benefits, transportation and claims related to main breaks. Depreciation and Amortization Expense increased by $1,050,848 due to increased investments in utility plant. Water and Fire Service in Lieu of Taxes increased by $1,452,407 due to increased water rates and fire hydrant charges.

Net Non-Operating Expenses (non-operating expenses less non-operating income) increased by $530,339 or 7.2% in 2011. This is primarily related to interest expense on the 2009 bond issue.

Net Income before Distributions and Contributions decreased by $6,689,116 or 16.1% in 2011 due to decreased water sales resulting in flat operating revenue with the January 1, 2011 rate increase and increased operating expenses. The formula for computing the dividend is established as a covenant in the Series 2009 Bond Resolution (the Master Bond Resolution) and is 50% of net income after certain stated deductions. A three-year averaging is used to adjust for the volatility in net income resulting from the changing weather. Dividends Paid and Payable decreased by $40,173 or 0.2%, from $18,049,371 to $18,009,198 due to a decrease in net income in 2011.

Contributions in Aid of Construction are composed of: pipeline contributions from developers for water main extensions and from governmental agencies for water main relocations; service installation fees from customers; apportionment warrant fees and tapping fees from customers to extend water service to unserved areas; and system development charges from customers for growth-related expansion. The level of capital contributions varies from year-to-year and is affected by economic cycles. These types of projects are fully funded or nearly fully funded by outside entities in advance of construction. Contributions in Aid of Construction decreased by $3,928,664 or 41.2% from previous year due to American Reinvestment and Recovery Act (ARRA) funds awarded in 2010.

FIGURE 2 - CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	2011	2010	Difference	Percent	2009
Operating Revenue	$ 148,193,236	$ 148,366,622	$ (173,386)	(0.1%)	$135,833,309
Operating Expenses	105,441,052	99,455,661	5,985,391	6.0%	94,050,586
Net Operating Revenue	42,752,184	48,910,961	(6,158,777)	(12.6%)	41,782,723
Net Non-Operating Expenses	7,932,803	7,402,464	530,339	7.2%	4,366,632
Net Income Before Distributions and Contributions	34,819,381	41,508,497	(6,689,116)	(16.1%)	37,416,091
Dividends Paid and Payable	18,009,198	18,049,371	(40,173)	(0.2%)	16,863,654
Contributions in Aid of Construction	5,614,348	9,543,012	(3,928,664)	(41.2%)	7,347,557
Increase in Net Assets	22,424,531	33,002,138	(10,577,607)	(32.1%)	27,899,994
Net Assets, Beginning of Year	778,059,912	745,057,774	33,002,138	4.4%	717,157,780
Net Assets, End of Year	$ 800,484,443	$ 778,059,912	$ 22,424,531	2.9%	$ 745,057,774

2010 COMPARED TO 2009

Operating Revenues increased by $12,533,313 or 9.2% in 2010 compared to 2009. Total water consumption increased by 2.2 billion gallons or 6.1% in 2010. Operating Expenses increased by $5,405,075 or 5.8% in 2010. Net Non-Operating Expenses increased by $3,035,832 or 69.5% in 2010 due to the December 2009 bond issue. Net income before Distributions and Contributions increased by $4,092,406 or 10.9% and the dividend to our shareholder Louisville Metro increased by $1,185,717 or 7.0% in 2010.

STATEMENT OF CASH FLOWS

Cash and Temporary Investments at the end of 2011 were $35,585,572 or 152.3% higher than at the end of 2010 (see Figure 3). Cash from Operating Activities decreased by $14,741,140 due to a slight decrease in cash from customers and an increase in cash paid to employees for services, suppliers and others. Cash from Capital and Related Financing Activities decreased by $2,752,697 related to the note receivable from our shareholder, Louisville Metro Government offset with a reduced amount for construction of utility assets. Cash from Investing Activities increased by $38,368,017 due to increased reserves from the 2009 bond issue. A portion of these funds were used in 2011 to fund capital projects.

FIGURE 3 - CONDENSED STATEMENT OF CASH FLOWS

	2011	2010	Difference	Percent	2009
Cash from Operating Activities	$ 70,483,439	$ 85,224,579	$(14,741,140)	(17.3%)	$ 63,921,273
Cash from Non-Capital Financing Activities	(18,081,171)	(17,977,398)	(103,773)	(0.6%)	(18,319,364)
Cash from Capital and Related Financing Activities	(89,967,014)	(87,214,317)	(2,752,697)	(3.2%)	57,433,958
Cash from Investing Activities	59,046,842	20,678,825	38,368,017	185.5%	(101,345,490)
Change in Cash and Temporary Investments	21,482,096	711,689	20,770,407	2918.5%	1,690,377
Cash and Temporary Investments, Beginning of Year	14,103,476	13,391,787	711,689	5.3%	11,701,410
Cash and Temporary Investments, End of Year	$ 35,585,572	$ 14,103,476	$21,482,096	152.3%	$ 13,391,787

In addition to the amounts held in Cash and Temporary Investments, Louisville Water also holds funds for capital improvements in reserves totaling $70,410,449 reported as part of Reserves in Noncurrent Assets on the Statement of Net Assets.

2010 COMPARED TO 2009

Cash and Temporary Investments at the end of 2010 were $14,103,476 which was 5.3% higher than at the end of 2009. Cash from Operating Activities increased by $21,303,306 due to increased cash from customers and a decrease in cash paid to suppliers and others.

CAPITAL ASSETS

The Company uses a five-year Capital Improvement Program ("CIP") that is updated annually. Every five years a 20-year facility plan is prepared by our Consulting Engineer. The most recent facility plan was prepared by Camp, Dresser and McKee in 2010. Development of the CIP is based on the Company's current Facilities Plan and recommendations from the annual inspection of facilities. The CIP also identifies anticipated capital expenditures for a total of ten years. The Company's current Facilities Plan covers the years from 2011 through 2030. The Company expects to invest $356,195,503 in improvements during 2012-2016. The key capital projects for 2012 are: infrastructure renewal, new technology and facilities including renovation of water treatment plants, improvements to storage and boosted pressure systems, and transmission and distribution system improvements.

DEBT ADMINISTRATION

On December 31, 2011 there is $4,035,000 principal outstanding for the Series 2001 Bonds; $74,605,000 principal outstanding for the Series 2006 Bonds; $109,390,000 principal outstanding for the Series 2009A Bonds; $86,710,000 principal outstanding for the Series 2009B Bonds; and $1,811,169 principal outstanding for the ARRA loan for a total of $276,551,169. As shown in Figure 4, the debt service coverage of 2.13 times in 2011 is favorable to the statutory and bond resolution limits of 1.3 times. The Series 2001 Bonds are not insured, but have been partially advance refunded with the remaining portion callable beginning in 2011, and carry a Aaa rating from Moody's and a AAA rating from Standard & Poor's. The Series 2006 Bonds have a combination of insured and uninsured maturities, are callable beginning in 2016, and carry ratings of Aaa from Moody's and ratings of AAA from Standard & Poor's. The Series 2009A and 2009B Bonds are not insured, callable beginning in 2019, and carry ratings of Aaa from Moody's and ratings of AAA from Standard & Poor's. The Company was upgraded in December 2009 to AAA from Standard & Poor's and recalibrated to Aaa from Moody's in May of 2010.

FIGURE 4 – DEBT SERVICE COVERAGE

	2011	2010	Difference	Percent
Income Available for Debt Service	$45,872,466	$52,006,912	$(6,134,446)	(11.8%)
Current Aggregate Net Debt Service	21,528,545	22,599,302	(1,070,757)	(4.7%)
Coverage Times	2.13	2.30	(.17)	(7.4%)

The Company's debt rating is among the highest in the United States for water utility revenue bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Management believes that the 2012 budget adequately addresses all revenue requirements. Water rates will increase for retail water service by 3.75% on and after January 1, 2012. Water rates for wholesale customers are recommended to increase July 1, 2012. Rate changes for three wholesale customers are subject to approval by the Kentucky Public Service Commission.

Management believes that the most challenging economic issues facing Louisville Water in 2012 will be the slow recovery of the economy and the continued decrease in water consumption per account due to low-flow plumbing fixtures and conservation. Management plans to pursue strategies to assure steady top-line revenue growth and profitability through: increasing water sales within the boundaries of existing infrastructure; pursuing traditional growth opportunities for wholesale and retail service; pursuing non-traditional growth opportunities through mergers, acquisitions, joint ventures and management contracts; and pursuing new or expanded related business opportunities that capitalize on our existing competencies, expertise and strengths.

COMPUTATION OF STOCKHOLDER'S EQUITY

Stockholder's equity for Louisville Water Company is no longer published in the audited financial statements following adoption of GASB 34 in 2002. Figure 5 describes management's computation of stockholder's equity for the years ending December 31, 2011 and 2010, using the Common Stock, Retained Earnings, and Total Equity Capital reported in the 2001 audited financial statements and using Income before Distributions and Contributions less Dividends Paid and Payable from audited financial statements for subsequent years.

FIGURE 5 – COMPUTATION OF STOCKHOLDER'S EQUITY

	2011	2010	Difference	Percent
Total Equity Capital, Beginning of Year	$450,639,830	$427,180,704	$23,459,126	5.5%
Plus Income before Distributions and Contributions	34,819,381	41,508,497	(6,689,116)	(16.1%)
Less Dividends Paid and Payable	(18,009,198)	(18,049,371)	40,173	0.2%
Total Equity Capital, End of Year	467,450,013	450,639,830	16,810,183	3.7%
Less Cumulative Deposits to Infrastructure Replacement Reserve	(42,053,333)	(42,053,333)	0	0%
Stockholders Equity Eligible for Return Computation	$425,396,680	$408,586,497	$16,810,183	4.1%

The adjusted net income for 2011 for dividend and return on equity computation was $34,819,381. The return on equity earned by Louisville Water Company in 2011 was 8.2%.

COMPARATIVE ANALYSIS OF FINANCIAL RESULTS

To optimize long-term financial viability, Louisville Water management plans for and monitors five groups of financial metrics: liquidity, capitalization, coverage, profitability and dividend payout. Figure 6 below describes management's computation of certain financial ratios within each of these groups of metrics.

FIGURE 6 – COMPARATIVE ANALYSIS OF FINANCIAL RESULTS

Liquidity	Access Readily Available Assets to Meet Near-Term Obligations	2010	2011	2012 Budget	Target
Days of Funded Operations	(Cash+Unrestricted Fund Reserves)/ (O&M Expense/365)	877	616	419	> 200
Days of Cash Funded Operations	Cash/(O&M Expense/365)	87	207	194	> 60

Capitalization	Reliance on Debt Financing for Capital Investments	2010	2011	2012 Budget	Target
Long Term Debt to Net Utility Plant	Long Term Debt/ Net Utility Plant	31.15%	28.93%	26.25%	<35%
Debt to Capitalization	Long Term Debt/ (Long Term Debt+ Unrestricted Stock Equity)	41.21%	39.40%	36.94%	

Coverage	Capacity to Make Debt Service Payments	2010	2011	2012 Budget	Target
Debt Service Coverage	EBIT/Debt Service EBIT/Maximum Aggregate Debt Service	Current 2.30 Max Year 1.88	Current 2.13 Max Year 1.88	Current 1.84 Max Year 1.84	Current Target >2.0 Minimum >1.3
Debt Service Safety Margin	(O&M Expense+Debt Service)/(Operating Revenue +Non-Operating Revenue)	45.32%	43.62%	41.61%	>30%
EBITD/ Interest Expense	EBITDA Interest Expense	7.37x	7.32x	8.21x	>5.0x

Profitability	Profitability of the Company	2010	2011	2012 Budget	Target
Return on Equity	(Net Income-IRR -Construction Interest)/ Stockholder Equity Eligible for Return	9.67%	8.19%	8.53%	2010 >9.80% 2011 >9.80% 2012 >9.80%
Return on Assets	(Net Income-IRR -Construction Interest)/ Total Assets	3.56%	3.10%	3.30%	
Return on Net Utility Plant	(Net Income-IRR -Construction Interest)/ Net Utility Plant	4.30%	3.64%	3.82%	
Net Profit Margin	(Net Income-IRR-Construction Interest)/ Operating Revenue	26.63%	23.50%	23.94%	
Operating Margin	EBITDA/Operating Revenue	60.10%	57.61%	58.44%	

Dividend Payout	Measurement of as a Dividend Distribution of Profit	2010	2011	2012 Budget
Dividend Payout	Dividends Declared/ Net Income-IRR -Construction Interest)	45.68%	51.72%	50.74%
Total Transfers	(Water in Lieu of Taxes +Dividends)/ Operating Revenue	21.07%	22.05%	21.75%
Dividend Yield	Dividends Declared/ Stockholder Equity Eligible for Return	4.42	4.23%	4.33%

CONTACTING THE COMPANY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, ratepayers, customers, creditors and stockholder with a general overview of the Company's finances and to show the Company's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Treasurer's Office at Louisville Water, 550 South Third Street, Louisville, KY, 40202.

STATEMENTS OF NET ASSETS

December 31, 2011 and 2010

	2011	2010
ASSETS		
Current assets		
Cash and temporary investments	$ 35,585,572	$ 14,103,476
Bond investments	–	59,613,499
Accounts receivable, net	18,520,913	16,693,052
Contracts receivable, current portion	496,061	442,406
Notes receivable, current portion	262,800	–
Materials and supplies	7,017,952	6,603,599
Bond service account – Series 2001	116,970	177,731
Bond service account – Series 2006	536,787	505,838
Bond service account – Series 2009A	1,575,631	1,118,847
Bond service account – Series 2009B	408,426	348,281
Other current assets	2,212,414	1,487,633
Accrued interest receivable	471,605	758,388
Total current assets	67,205,131	101,852,750
Utility plant, net of accumulated depreciation	956,045,464	919,591,175
Noncurrent assets		
Non-utility property	232,534	202,526
Contracts receivable	1,792,644	1,886,399
Notes receivable	9,737,200	–
Reserves (cash and investments)	85,870,142	83,921,753
Retirement plan past service costs, net	–	71,134
Preliminary engineering charges	100,770	572,809
Prepaid regulatory assets	2,887,129	3,160,932
Total noncurrent assets	100,620,419	89,815,553
Total Assets	$1,123,871,014	$1,111,259,478

continued

STATEMENTS OF NET ASSETS

December 31, 2011 and 2010

	2011	2010
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	$ 12,256,525	$ 13,638,770
Accounts payable, sewer collections	13,120,763	11,447,740
Customer deposits and advances	3,983,278	4,329,339
Tax collections payable	573,609	580,436
Accrued interest payable	1,592,880	1,643,613
Dividend payable	–	71,973
Contracts payable, retainage percentage	999,889	870,648
Accrued payroll	337,514	337,489
Accrued vacation and sick leave	1,357,538	909,074
Insurance reserve	2,050,856	1,434,005
Bonds and notes payable, current portion	16,384,542	9,865,000
Total current liabilities	52,657,394	45,128,087
Long-term liabilities		
Customer advances for construction	1,457,099	1,866,856
Unamortized debt premiums, discounts cost of issuance and deferred loss	9,105,451	9,653,454
Bonds and notes payable, less current portion	260,166,627	276,551,169
Total long-term liabilities	270,729,177	288,071,479
Total liabilities	323,386,571	333,199,566
Net assets		
Unrestricted	32,482,192	58,812,456
Invested in capital assets, net of related debt	679,494,295	633,175,006
Restricted, expendable	88,507,956	86,072,450
Total net assets	800,484,443	778,059,912
Total Liabilities and Net Assets	**$1,123,871,014**	**$1,111,259,478**

See accompanying notes to financial statements.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Years ended December 31, 2011 and 2010

	2011	2010
Revenues		
Operating revenues	$148,193,236	$148,366,622
Operating expenses		
Operation and maintenance expenses	62,826,346	59,203,005
Depreciation	25,815,975	24,495,742
Amortization	430,877	700,262
Water and fire service provided in lieu of taxes	14,660,297	13,207,890
Loss from sale and salvage of retired assets	1,707,557	1,848,762
Total operating expenses	105,441,052	99,455,661
Net operating revenue	42,752,184	48,910,961
Non-operating revenue (expense)		
Interest income	1,412,725	1,247,191
Interest expense	(9,345,528)	(8,649,655)
Net non-operating expense	(7,932,803)	(7,402,464)
Income before distributions and contributions	34,819,381	41,508,497
Distributions and contributions		
Dividends paid and payable	(18,009,198)	(18,049,371)
Contributions in aid of construction	5,614,348	9,543,012
Net distributions and contributions	(12,394,850)	(8,506,359)
Increase in net assets	22,424,531	33,002,138
Net assets, beginning of year	778,059,912	745,057,774
Net assets, end of year	$800,484,443	$778,059,912

See accompanying notes to financial statements.

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Cash received from customers	$133,645,562	$134,390,985
Cash paid to suppliers and others	(38,224,899)	(25,157,557)
Cash paid to employees for services	(24,937,224)	(24,008,849)
Net cash from operating activities	70,483,439	85,224,579
Cash flows from noncapital financing activities		
Dividends paid to stockholder	(18,081,171)	(17,977,398)
Cash flows from capital and related financing activities		
Acquisition and construction of utility plant	(65,804,372)	(78,850,737)
Proceeds from ARRA loan	–	1,811,169
Unamortized debt discounts and costs of issuance	122,345	174,134
Unamortized debt premium on 2009 Series bonds	(670,348)	(670,347)
Contributions in aid of construction	5,614,348	9,543,012
Repayment of customer advances for construction	(409,757)	(706,350)
Preliminary engineering charges	472,039	(93,428)
Notes receivable	(10,000,000)	–
Principal paid	(9,865,000)	(10,505,000)
Interest paid	(9,396,261)	(7,912,301)
Non-utility property addition	(30,008)	(4,469)
Net cash from capital and related financing activities	(89,967,014)	(87,214,317)
Cash flows from investing activities		
Reserved funds	57,665,110	20,262,359
Restricted funds	(487,117)	(413,834)
Contracts	40,100	137,700
Contracts, retainage percentage	129,241	62,903
Interest received	1,699,508	629,697
Net cash from investing activities	59,046,842	20,678,825
Net change in cash and temporary investments	21,482,096	711,689
Cash and temporary investments, beginning of year	14,103,476	13,391,787
Cash and temporary investments, end of year	$ 35,585,572	$ 14,103,476

continued

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	2011	2010
Reconciliation of net operating revenue to net cash from operating activities		
Net operating revenue	$42,752,184	$48,910,961
Adjustments to reconcile net operating revenue to net cash from activities		
Depreciation	27,211,649	25,873,659
Amortization	430,877	700,262
Amortization of retirement plan past service costs	71,134	213,402
Loss from sale and salvage of retired assets	1,707,557	1,848,762
Increase (decrease) in cash due to changes in current assets and liabilities		
Accounts receivable	(1,827,861)	(2,458,214)
Materials and supplies	(414,353)	(306,117)
Other current assets	(724,781)	122,327
Other deferred charges	273,803	874,316
Accounts payable	(1,382,245)	6,959,988
Accounts payable, sewer collections	1,673,023	2,318,315
Customer deposits	(346,061)	(112,761)
Tax collections payable	(6,827)	53,848
Accrued vacation and sick leave	448,464	26,451
Accrued payroll	25	81,015
Insurance reserve	616,851	118,365
Net cash from operating activities	$70,483,439	$85,224,579

See accompanying notes to financial statements.

Notes to Financial Statements

December 31, 2011 and 2010

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Description of the Business: Louisville Water Company (the "Company") is a provider of water and related services to residential, commercial, industrial, fire and wholesale consumers in Jefferson, Bullitt and Oldham Counties. The Company is wholly owned by Louisville Metro Government ("Metro Government") and therefore follows Governmental Accounting Standards.

Basis of Presentation: The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). The Company has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with a GASB pronouncement. The financial statements include the accounts of Louisville Water Company and have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when an obligation has been incurred. The Company is an Enterprise fund and reports as a Business Type Activity ("BTA"). BTAs are those activities that are financed in whole or in part by fees charged to external parties for goods and services.

The Company classifies resources for accounting and reporting purposes into the following net asset categories:

- *Invested in capital assets, net of related debt:*
  Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted:*
  Nonexpendable - Net assets subjected to externally imposed stipulations that they be maintained permanently by the Company.

  Expendable - Net assets whose use by the Company is subject to externally imposed stipulations that can be fulfilled by actions of the Company pursuant to those stipulations or that expire by the passage of time.
- *Unrestricted:*
  Net assets whose use by the Company is not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Water Works or may otherwise be limited by contractual agreements with outside parties.

Method of Accounting: The Company's accounting policies conform to accounting principles generally accepted in the United States of America for water utilities. Although the Company is not subject to regulation, the accounts are maintained in accordance with the uniform system of accounts prescribed by the National Association of Regulatory Utility Commissioners, except with respect to the treatment of gains and losses from the retirement or disposition of utility plant. The Company recognizes gain or loss, including cost of removal, upon the retirement or disposition of utility plant rather than the transfer of cost to accumulated depreciation, as provided by the National Association of Regulatory Utility Commissioners.

Taxes: The Company, by virtue of its ownership by Metro Government, is exempt from taxation by federal, state and local taxing authorities. However, the Company is liable for certain other taxes and provides water and fire services in lieu of taxes to Metro Government. Tax expense, which includes water and fire services in lieu of taxes for 2011 and 2010, was $14,660,297 and $13,207,890, respectively.

Estimates in the Financial Statements: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications: Certain amounts in the 2010 financial statements have been reclassified to conform with the 2011 presentation. The change had no effect on total net assets or the change in net assets.

Statements of Cash Flows: For purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with a maturity of three months or less to be temporary investments.

Union Employees: The Company has numerous employees who are covered by a collective bargaining agreement. At December 31, 2011, approximately 47% of the Company's full-time employees were covered by a collective bargaining agreement. The existing collective bargaining agreement expired January 31, 2011 and was renegotiated for five years, expiring January 31, 2016, and ratified on February 8, 2011.

Adoption of New Accounting Pronouncements: GASB Statement No. 59, *Financial Instruments Omnibus,* was issued in June 2010. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The adoption of this guidance had no significant impact on the Company's operating results or financial condition.

Materials and Supplies: Materials and supplies inventories are stated at the average cost.

Utility Plant: Utility plant is stated at cost of acquisition or construction, including certain indirect costs. Direct purchases of with a unit cost of $2,500 or more and a useful life of greater than one year are capitalized. The Company applies the straight-line method of depreciation to the estimated useful lives of the various classes of depreciable property. The estimated useful lives of some significant asset categories are as follows:

Buildings	50 to 100 years
Pipelines	65 to 100 years
Fire hydrants	50 years
Services	40 years
Meters	15 years
Equipment	5 to 10 years
Trucks and autos	5 years

Depreciation expense for 2011 was $27,211,649 of which $1,395,674 was allocated to other operating expenses. Depreciation expense for 2010 was $25,873,659, of which $1,377,917 was allocated to other operating expenses.

Capitalized Interest: The Company follows the practice of capitalizing interest during construction on capital projects that are debt financed. Interest in the amount of $1,770,015 and $2,933,590 was capitalized during 2011 and 2010, respectively.

Prepaid Regulatory Assets: The Company adopted Financial Accounting Standard No. 71 "*Accounting for the Effects of Certain Types of Regulation*" effective January 2006 and is currently amortizing abandoned plan assets of $3,593,782, $1,606,524, $278,332 over five to eight years beginning in 2007, 2009, and 2011, respectively. In 2011, $308,027 was added to the account which is being amortized over five years beginning in 2012.

Allowance for Doubtful Accounts: The allowance for doubtful accounts is established based on historical collection experience and a review of the current status of existing receivables.

Accrued Vacation and Sick Leave: Employees' vested and accumulated sick leave is recorded as a liability on the balance sheets. Sick leave was $1,357,538 and $909,074 as of December 31, 2011 and 2010, respectively. Vacation time does not carry over from year-to-year and must be used by December 31st of the year in which it is awarded or purchased.

Customer Deposits: The Company has implemented a security deposit policy for all customers applying for residential, commercial or industrial water service who: (i) have not had an account with the Louisville Water Company for three consecutive years; or (ii) have had a previous account in bad debt or bankruptcy status; or (iii) have had a service disconnected due to non-payment within the last three years of service. The Company refunds the security deposit when: (i) a customer closes the account; or (ii) the customer has paid their bill in a timely manner for three consecutive years. Additionally, the Company charges a security deposit for temporary meters for construction. Total security deposits at December 31, 2011 and 2010 were $2,782,540 and $2,662,090, respectively. Customer deposits are included as customer deposits and advances in current liabilities on the statement of net assets.

Customer Advances for Construction: The Company requires customers to make a deposit for the cost of construction of pipelines and special services. Deposits are refundable to the extent the deposit is in excess of the construction cost. These deposits for construction are reflected as a current liability until the completion of the project. The customer advance accounts reflect the anticipated long-term liability for refunding construction costs based on future new service installations within certain time limits up to 20 years. Once the refund period has expired, any balance is recorded as a contribution in aid of construction in the Company's statements of revenues, expenses and changes in net assets. Total customer advances for construction at December 31, 2011 and 2010 were $1,200,738 and $1,667,249, respectively. Customer advances for construction are included as customer deposits and advances in current liabilities on the statement of net assets.

Investments: Investments are reported at fair value with gains and losses included in the statements of revenues, expenses and changes in net assets. Short-term investments in agency obligations that have a remaining maturity of one year or less at the time of purchase are reported at amortized cost. Gains or losses on dispositions are determined using the specific identification method.

Amortization: Amortization of bond discounts, expenses, and premiums are amortized over the life of the bonds.

Operating/Non-Operating Revenues and Expenses: Operating Revenues are those revenues that are generated directly from the primary activity of the Company. These revenues are water service and commodity charges, late and other water-related fees, and compensation for service provided to others. Operating expenses are expenses incurred through the activities of operating and maintaining the Company, including depreciation, water provided in lieu of taxes, and loss on disposition of assets. Non-operating revenues and expenses are comprised of investment and financing earnings and cost.

Revenue: Revenue is recognized in the period in which billings are rendered to consumers. The Company does not accrue revenue for water delivered but not billed.

Contributed Capital and Construction Grants: Construction and acquisition of water lines and other facilities and plants are financed in part from governmental grants and contributions in aid of construction from property owners and developers. Governmental grants in aid of construction represent the portion of construction cost incurred where paperwork has been submitted to the entity. These amounts are recorded as a receivable and revenues from contributions at the time the documentation is submitted. The revenues from contributions are part of the change in net assets.

Restricted and Unrestricted Funds: Restricted funds are reserved for the purpose of bond debt service, funding of capital construction, and debt service reserves. Unrestricted funds, generated from service fees and other operating income, are used to pay operating expenses. When an expense or outlay is incurred for which both restricted and unrestricted funds are available, it is the Company's practice to use revenue from operations to finance construction, then reimburse from restricted funds as needed. Restricted funds can be used to pay operating expenses in the case of an emergency caused by some extraordinary occurrence, so characterized in a Certificate of an Authorized Officer with the Trustee, and an insufficiency of moneys to the credit of the Operation Fund to meet such emergency.

NOTE 2 – ACCOUNTS RECEIVABLE

Accounts receivable as of December 31, 2011 and 2010 include:

	2011	2010
Water	$ 5,323,527	$ 5,456,502
Sewer	11,930,374	10,542,070
Other	2,036,090	1,315,853
	19,289,991	17,314,425
Allowance for doubtful accounts	(769,078)	(621,373)
Accounts receivable (net)	$18,520,913	$16,693,052

NOTE 3 – NOTES RECEIVABLE

On February 8, 2011, the Company Board of Water Works approved a resolution to provide a $10,000,000 promissory note to Louisville/Jefferson County Metro Government at a 2% annual interest rate. The promissory note is to be repaid over the next five years beginning March 15, 2012 with a balloon payment in the fifth year. Louisville Metro has the option to refinance the remaining balance for one additional five year term.

NOTE 4 – 2009 BOND ISSUE

The Company issued $202.93 million in tax-exempt and taxable revenue bonds on December 17, 2009. Series 2009A bonds, totaling $116.22 million were tax-exempt, with an advance refunding of a portion of 2000 and 2001 series bonds and a new money issue. The Series 2009A Bonds advance refunded $61.870 million of the outstanding Series 2000 Bonds with interest rates from 5.0% to 5.5% and $16.515 of the Series 2001 Bonds with interest rates from 4.0% to 4.7%. The Company used the proceeds to purchase U.S. government securities. These securities were deposited in an irrevocable refunding escrow to provide for all future debt service on the refunded portion of the Series 2000 and 2001 Bonds. There is $4,035,000 and $5,260,000 outstanding principal related to the Series 2001 Bonds at December 31, 2011 and 2010, respectively. There is no outstanding principal related to the Series 2000 Bonds at December 31, 2011 or 2010.

The advance refunding reduced total debt service payments over the next 15 years for 2000 and 4 years for 2001 series by $11.74 million and $1.24 million, respectively. This results in an economic gain of $8.1 million for the 2000 series and $1.02 million for the 2001 series. The advanced refunding of the Series 2000 and 2001 Bonds also produced a deferred loss on refunding totaling $4,232,789 which included in unamortized debt premiums, discounts, and costs of issuance on the statement of net assets and will be amortized over the remaining life of the advance refunded bonds.

NOTE 5 – 2009 BOND ISSUE RESOLUTION FUNDS

Bond Reserve Account: The 2009 Master Bond Resolution requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. The fund is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient. Otherwise, funds may not be withdrawn until the bond issue is paid in full. However, the income earned on investments may be transferred to the Bond Service Account. The 2009 reserve is invested in mutual funds and is stated at fair value.

Depreciation Fund: The 2009 Master Bond Resolution requires the Company to make monthly deposits of an amount equal to one-twelfth of an amount not less than the annual depreciation charges into a depreciation fund. The balance includes interest income earned and the gain on sale of property and is available to fund capital improvements to the water system. The individual fund accounts are collateralized by pledged assets guaranteed under a U.S. Treasury program, insured by the FDIC or invested in a sweep account.

Infrastructure Replacement Reserve Fund: The 2009 Master Bond Resolution provides for the funding of the Infrastructure Replacement Reserve Fund to support the infrastructure main replacement and rehabilitation projects. Budgeted funding was $4,000,000 for 2011 and 2010. There were deposits of $0 and $2,000,000 during 2011 and 2010, respectively. The balance at December 31, 2011 is invested in an account collateralized by pledged assets and stated at fair value.

Bond Service Account: Except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on both the Series 2009A and 2009B Bonds outstanding and one-twelfth of the next maturing principal of those bonds. The account is invested in a government obligation mutual fund and is stated at fair value.

Revenue: The 2009 Master Bond Resolution requires all Revenues received by the Company and not required to be deposited elsewhere or otherwise reserved for Special Investments will be collected by the Company and deposited with a Depository or Depositories to the credit of the Revenue Fund.

Operation Fund: Per the 2009 Master Bond Resolution, each month the Company shall, after making required payments to the Bond Service Account, the Bond Reserve Account, and the Depreciation Fund, withdraw from the Revenue Fund and deposit with a Depository in the name of the Company to the credit of the Operation Fund the balance remaining in the Revenue Fund. The fund is included in cash and temporary investments.

Rebate Fund: The Rebate Fund is created by the 2009 Master Bond Resolution. Monies credited to the Rebate Fund shall be free from the lien of the Resolution. Payments shall be made by the Board of Water Works and the Company within 15 days following each five-year computation period for the calculation of excess rebateable arbitrage under the Internal Revenue Code. The Board and the Company have covenanted to rebate excess earnings to the United States in accordance with law. There were no deposits required to be made to this fund during 2011.

NOTE 6 – 2006 BOND ISSUE RESOLUTION FUNDS

Bond Reserve Account: The 2009 Master Bond Resolution requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. The fund is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient. Otherwise, funds may not be withdrawn until the bond issue is paid in full. However, the income earned on investments may be transferred to the Bond Service Account. The 2006 reserve is invested in mutual funds and US Treasury Bonds and are stated at fair value.

Depreciation Fund: The 2009 Master Bond Resolution requires the Company to make monthly deposits of an amount equal to one-twelfth of an amount not less than the annual depreciation charges into a depreciation fund. The balance includes interest income earned and the gain on sale of property and is available to fund capital improvements to the water system. The individual fund accounts are either guaranteed by pledged assets, guaranteed under a U.S. Treasury program, insured by the FDIC or invested in a sweep account. This fund and the funding requirements are also included in the 2000, 2001 and 2009 bond issues (see Notes 5, 7 and 8).

Infrastructure Replacement Reserve Fund: The 2009 Master Bond Resolution provides for funding of the Infrastructure Replacement Reserve Fund to support the infrastructure main replacement and rehabilitation projects. Budgeted funding was $4,000,000 for 2011 and 2010. There were deposits of $0 and $2,000,000 to this reserve in 2011 and 2010, respectively. The balance at December 31, 2011 is invested in an account collateralized by pledged assets and stated at fair value.

Bond Service Account: Except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on the 2006 Bonds outstanding and one-twelfth of the next maturing principal of those bonds. The account is invested in a government obligation mutual fund and is stated at fair value.

NOTE 7 – 2001 BOND ISSUE RESOLUTION FUNDS

Bond Reserve Account: The 2009 Master Bond Resolution requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. The fund is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient. Otherwise, funds may not be withdrawn until the bond issue is paid in full. However, the income earned on investments may be transferred to the Bond Service Account. The 2001 reserve is invested in U. S. Treasury Bonds and is stated at fair value.

Depreciation Fund: The 2009 Master Bond Resolution requires the Company to make monthly deposits of an amount equal to one-twelfth of an amount not less than the annual depreciation charges into a depreciation fund. The balance includes interest income earned and the gain on sale of property and is available to fund capital improvements to the water system. The individual fund accounts are either guaranteed under a U.S. Treasury program, insured by the FDIC or invested in a sweep account and collateralized by pledged assets. This fund and the funding requirements are also included in the 2000, 2006 and 2009 bond issues (see Notes 5, 6 and 8).

Infrastructure Replacement Reserve Fund: The 2009 Master Bond Resolution provides for funding of the Infrastructure Replacement Reserve Fund to support the infrastructure main replacement and rehabilitation projects. Budgeted funding was $4,000,000 for 2011 and 2010. There were deposits of $0 and $2,000,000 to this reserve in 2011 and 2010, respectively. The balance at December 31, 2011 is invested in an account collateralized by pledged assets and stated at fair value.

U. S. Treasury State and Local Government Fund: The Series 2 Note Reserve was established in the amount of $1,440,400 pursuant to the 2009 Master Bond Resolution. The note was paid in August 1993 and the reserve amount was transferred to the Company and was deposited in the U.S. Treasury State and Local Government Fund. The excess funds from the Series 2001 Bond Issue were deposited in this fund. The fund is invested in U.S. Treasury bonds and is stated at fair value.

Bond Service Account: Except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on the Series 2001 Bonds outstanding and one-twelfth of the next maturing principal of those bonds. The account is invested in a government obligation mutual fund and is stated at fair value.

NOTE 8 – 2000 BOND ISSUE RESOLUTION FUNDS

Bond Reserve Account: The resolution authorizing the Series 2000 Bond Issue requires that a bond reserve account be established at one-half of the highest future annual maximum aggregate net bond service. As an alternative, the Resolution provides for deposit of an insurance policy, surety bond or other comparable security into the Reserve Account in an amount sufficient to meet the bond reserve requirement. The Company maintains an insurance policy to meet this requirement. The policy is to be used to pay maturing bonds and interest in the event funds in the Bond Service Account are not sufficient.

Depreciation Fund: The 2009 Master Bond Resolution authorizing the Series 2000 Bond Issue requires the Company to maintain the depreciation fund in the same manner as required for the 2001 series (refunding 1992) bond issue (see Notes 5, 6, and 7).

Bond Service Account: Per the 2009 Master Bond Resolution, except to the extent that the interest and principal are to be paid from other available sources, the Company is required to deposit monthly, into the Trustee's Bond Service Account, one-sixth of the amount of the next succeeding interest payment on the Series 2000 Bonds outstanding and one-twelfth of the next maturing principal of those bonds. The account is invested in a government obligation mutual fund and is stated at fair value.

The final maturity on the Series 2000 Bond Issue was paid in 2010.

NOTE 9 – RESERVES

Reserve Fund assets for the years ended December 31, 2011 and 2010, include the following:

	2011	2010
Bond related reserves		
Bond reserve account	$13,819,550	$13,789,720
Capital related reserves		
Depreciation fund	45,894,361	44,042,256
Infrastructure replacement	24,492,026	24,425,627
Bullitt County water reserve	24,062	24,007
Total capital related reserves	70,410,449	68,491,890
Other reserves		
U.S. Treasury state and local government fund	1,640,143	1,640,143
Total bond related reserves	$85,870,142	$83,921,753

NOTE 10 - CASH AND INVESTMENTS

The Company has adopted the provisions of GASB Statement No. 40, *"Deposits and Investment Risk Disclosures"*. This statement adds certain additional disclosures about cash and investments, including common areas of investment risk.

The Company's investment policy specifies that the primary objectives, in priority order, of investment activities is safety, liquidity and yield. In addition, funds are to be invested in conformity with federal, state and other legal requirements, including bond resolutions.

At December 31, 2011, $35,581,988 of cash and temporary investments was collateralized by financial institutions with pledged assets. Of the, $605,446 cash in bank at December 31, 2011, $250,000 was covered by insurance provided by the Federal Deposit Insurance Company ("FDIC"). At December 31, 2010, $14,571,429 of cash and temporary investments was collateralized by financial institutions with pledged assets. Of the $988,359 cash in bank at December, 31, 2010, $500,000 was covered by insurance provided by the FDIC. The remaining cash balance was uninsured and uncollateralized.

Information related to cash and investments for December 31, 2011 and 2010 is included below.

	Amortized Cost/ Fair Value	Weighted Average Maturity in Years	Credit Rating
December 31, 2011			
Mutual funds	$ 2,668,189	0.14	Aaa
U. S. Treasury bonds	4,700,000	1.88	AA+
Certificates of deposit	5,214,469	0.44	Aaa
Repurchase agreement (GIC)	10,729,318	12.85	Aaa
Pledged securities/cash	65,171,919		
Cash in bank and petty cash	36,190,691		
	124,674,586	6.41	
Checks issued against cash on deposit	(581,058)		
Total cash and investments	$124,093,528		
December 31, 2010			
Agency bonds	$ 59,613,499	0.54	Aaa
Mutual funds	12,880,559	0.15	Aaa
U. S. Treasury bonds	4,700,000	2.88	Aaa
Certificates of deposit	5,099,723	1.44	
Repurchase agreement sweep accounts	77,937,588		
Cash in bank and petty cash	988,578		
	161,219,947	0.67	
Checks issued against cash on deposit	(1,430,522)		
Total cash and investments	$159,789,425		

Custodial Credit Risk – Deposits: Custodial credit risk is the risk that in the event of a bank failure, the Company's deposits may not be returned to it. The Company does not have a formal deposit policy for custodial credit risk; however, the Company has accounts set up to mitigate this risk: (i) certain deposits are collateralized by pledged assets; and (ii) insurance provided by the FDIC; and (iii) accounts are set up with overnight sweep accounts so that cash is invested in short term, liquid investments daily to minimize the amount of cash not covered by insurance provided by the FDIC. In 2010 the Company updated its formal investment policy describing the investments the Company can purchase.

Custodial Credit Risk – Investments: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Company will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Company's investments are held in the name of the Company by a trustee, certain funds are participating in the U.S. Treasury Guarantee Program for money market funds and certificate of deposit amounts are covered under FDIC insurance.

Concentration of Credit Risk: The Company has a formal investment policy limiting the amount it may invest in any one issuer.

Interest Rate Risk: The Company does not have a formal policy limiting maturities of its investments. Investments are made based on the prevailing market conditions and anticipated cash needs at the time of the transaction.

Credit Risk: The Company has historically only purchased investment grade securities. The Standard & Poor's rating for the U.S. Treasury Bonds listed above is AA+.

NOTE 11 – UTILITY PLANT, NET

The following is a schedule of utility plant for the year ended December 31, 2011:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 9,059,851	$ 769,698	$ –	$ 9,829,549
Construction in progress	118,989,719	70,476,216	(127,992,653)	61,473,282
Total capital assets not being depreciated	128,049,570	71,245,914	(127,992,653)	71,302,831
Other capital assets				
Buildings	114,119,548	23,251,326	(237,939)	137,132,935
Machinery and equipment	54,090,805	3,139,911	(369,237)	56,861,479
Infrastructure	967,136,238	97,697,848	(40,340,042)	1,060,800,044
Total other capital assets at historical cost	1,135,346,591	124,089,085	(4,641,218)	1,254,794,458
Less accumulated depreciation for				
Buildings	(38,834,843)	(3,430,819)	65,403	(42,200,259)
Machinery and equipment	(39,466,602)	(3,983,383)	369,087	(43,080,898)
Infrastructure	(265,503,541)	(20,227,291)	960,164	(284,770,668)
Total accumulated depreciation	(343,804,986)	(27,641,493)	1,394,654	(370,051,825)
Other capital assets, net	791,541,605	96,447,592	(3,246,564)	884,742,633
Capital assets, net	$ 919,591,175	$ 167,693,506	$(131,239,217)	$ 956,045,464

The following is a schedule of utility plant for the year ended December 31, 2010:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 8,855,938	$ 203,913	$ –	$ 9,059,851
Construction in progress	108,114,198	84,199,997	(73,324,476)	118,989,719
Total capital assets not being depreciated	116,970,136	84,403,910	(73,324,476)	128,049,570
Other capital assets				
Buildings	103,776,859	10,529,962	(187,273)	114,119,548
Machinery and equipment	53,877,341	2,749,542	(2,536,078)	54,090,805
Infrastructure	915,945,923	54,775,362	(3,585,047)	967,136,238
Total other capital assets at historical cost	1,073,600,123	68,054,866	(6,308,398)	1,135,346,591
Less accumulated depreciation for				
Buildings	(36,202,514)	(2,709,582)	77,253	(38,834,843)
Machinery and equipment	(37,242,344)	(4,674,568)	2,450,310	(39,466,602)
Infrastructure	(247,962,280)	(18,621,123)	1,079,862	(265,503,541)
Total accumulated depreciation	(321,407,138)	(26,005,273)	3,607,425	(343,804,986)
Other capital assets, net	752,192,985	42,049,593	(2,700,973)	791,541,605
Capital assets, net	$ 869,163,121	$126,453,503	$(76,025,449)	$ 919,591,175

NOTE 12 – LONG-TERM LIABILITIES

Long-term liabilities at December 31, 2011, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$284,605,000	$ –	$ (9,865,000)	$274,740,000	$16,310,000	$258,430,000
ARRA note payable	1,811,169	–	–	1,811,169	74,542	1,736,627
Unamortized debt premiums, discounts, costs of issuance and deferred loss	9,653,454	–	(548,003)	9,105,451	–	9,105,451
Customer advances for construction	1,866,856	199,868	(609,625)	1,457,099	–	1,457,099
Total long-term liabilities	$297,936,479	$199,868	$(11,022,628)	$287,113,719	$16,384,542	$270,729,177

Long-term liabilities at December 31, 2010, are summarized as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	Noncurrent Portion
Bonds payable	$295,110,000	$ –	$(10,505,000)	$284,605,000	$9,865,000	$274,740,000
ARRA note payable	–	1,811,169	–	1,811,169	–	1,811,169
Unamortized debt premiums, discounts, costs of issuance and deferred loss	10,149,667	–	(496,213)	9,653,454	–	9,653,454
Customer advances for construction	2,573,206	266,405	(972,755)	1,866,856	–	1,866,856
Total long-term liabilities	$307,832,873	$2,077,574	$(11,973,968)	$297,936,479	$9,865,000	$288,071,479

Bonds and notes payable consist of the following:

	2011	2010
Water System Revenue Bonds, 2001 tax exempt, interest rates ranging from 4.0% to 4.7% with maturities from 2001 through 2014	$ 4,035,000	$ 5,260,000
Water System Revenue Bonds, 2006 tax exempt, interest rates ranging from 4.0% to 5.0% with maturities from 2001 through 2031	74,605,000	76,975,000
Water System Revenue Bonds, 2009A tax exempt, interest rates ranging from 2.25% to 5.0% with maturities from 2010 through 2025	109,390,000	115,660,000
Water System Revenue Bonds, 2009B taxable, interest rates ranging from 3.75% to 5.5% with maturities from 2017 through 2029.	86,710,000	86,710,000
Kentucky Infrastructure Authority, Drinking Water State Revolving Fund Loan Program, interest rate of 2.0% and maturities from 2012 through 2031	1,811,169	1,811,169
	276,551,169	286,416,169
Less current portion	16,384,542	9,865,000
Bonds and notes payable, less current portion	$260,166,627	$276,551,169

All bonds are subject to optional redemption provisions.

The Water System Revenue Bond resolutions contain a rate covenant requiring that the schedule of rates and charges, and the rules and regulations for water services will not be revised so as to result in a decrease of revenues. Also, future adjustments to water rates and charges are required as necessary so that annual net revenues will not be less than 1.30% of the total annual bond debt service requirements for the then outstanding bonds.

Maturities of bonds and notes payable are as follows:

Years ended December 31	Principal	Interest	Total
2012	$ 16,384,542	$ 12,757,529	$ 29,142,071
2013	16,696,032	12,317,214	29,013,246
2014	17,367,553	11,644,168	29,011,721
2015	17,774,104	10,808,897	28,583,001
2016	17,505,686	9,922,565	27,428,251
2017 – 2021	80,408,292	37,984,987	118,393,279
2022 – 2026	66,267,870	20,807,307	87,075,177
2027 – 2031	44,147,090	5,755,958	49,903,048
	$276,551,169	$121,998,625	$398,549,794

NOTE 13 – DIVIDENDS

The Company is required by bond resolution to pay a dividend to Metro Government, the sole stockholder. The dividend is calculated in accordance with the provisions of the 2009 Bond resolution and paid quarterly based on budgeted income. The required annual dividend is based upon the three year average of the previous two years actual dividend and 50% of the Company's current year net income before distributions and contributions with certain adjustments and exclusions (adjusted net income). The dividend computed under this provision was $18,009,198 and $18,049,371 for 2011 and 2010, respectively.

NOTE 14 - DEFERRED COMPENSATION PLANS

The Company offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits participating employees to defer a portion of their salary until future years. An employee may defer up to 100% of adjusted gross compensation or $16,500; whichever is less, to the plan. The deferred compensation is not available to employees until termination, retirement, death or unforeseen emergency. Plan assets and liabilities are not recorded by the Company. The Company contributes $0.25 for every $1.00 of an employee's contribution up to $1,500 ($375 maximum Company contribution) to the plan. The amount contributed to the plan by the Company and charged to expense was approximately $64,200 and $64,783 for the years ended December 31, 2011 and 2010, respectively.

The Company has a defined contribution plan covering substantially all employees of the Company. An eligible employee may defer up to 100% of adjusted gross compensation or $16,500; whichever is less, to the plan. The Company contributes $0.25 for every $1.00 of an employee's contribution up to $1,500 ($375 maximum Company contribution) to the plan. The amount contributed to the plan by the Company and charged to expense was approximately $32,147 and $32,570 for the years ended December 31, 2011 and 2010, respectively.

NOTE 15 - PENSION PLAN

All full-time employees of the Company participate in the County Employee Retirement System ("CERS") which is a cost-sharing multiple-employer defined benefit retirement plan administered by Kentucky Retirement Systems ("KRS"), an agency of the Commonwealth of Kentucky. The CERS provides for retirement, disability and death benefits to plan members and beneficiaries. The KRS issues a publicly available financial report that includes financial statements and required supplemental information for the CERS. That report may be obtained by writing to the KRS, 1260 Louisville Road, Frankfort, Kentucky 40601-6124 or by visiting www.kyret.com.

Plan members are required to contribute 5% of creditable compensation if hired before September 1, 2008. Plan members hired on or after that date are required to contribute 6% of creditable compensation. For 2011, 2010 and 2009, participating employees contributed creditable compensation to CERS totaling $1,774,782, $1,401,170 and $1,420,491, respectively. The Company is required to contribute the remaining amounts necessary to pay benefits when due. The Company's actuarially determined contribution rate was 16.16% effective July 1, 2009, 16.93% effective July 1, 2010 and 18.96% effective July 1, 2011. Employer contribution rates are intended to fund the normal cost on a current basis plus an amount equal to the amortization of unfunded past service costs over thirty years. The Company contributed $5,080,620, $4,641,238, and $4,062,798 for 2011, 2010, and 2009, respectively. The Company's total payroll was $29,933,614, $29,143,866 and $29,818,531 for 2011, 2010 and 2009, respectively. CERS covered payroll was $28,265,338, $27,884,476 and $28,361,305 for 2011, 2010 and 2009, respectively.

In addition to the assets transferred from its previous plan, the Company became obligated to CERS for $4,273,873 for remaining unfunded past service costs. The remaining liability for unfunded past service costs plus accrued interest was paid with proceeds from the 1992 Series 2 Note Payable. The related past service cost asset became fully amortized during 2011.

NOTE 16 – CONTINGENCIES AND COMMITMENTS

Self Insurance: The Company retains certain insurable risks up to a fixed maximum per claim exposure. The risk is mitigated by maintaining a self-insured retention (S.I.R.) of $1,000,000 per occurrence for auto and general liability claims and lawsuits with excess liability insurance above the S.I.R. in two layers totaling $35,000,000. Claim and suits are managed in-house by Louisville Water Company staff. The Company is self-funded for workers' compensation claims with a specific (per occurrence) retention of $500,000, an estimated aggregate retention of $1,741,000 (approximately 200% of deposit premium based upon payroll estimates) and an aggregate limit of $3,000,000. Prior to October 1, 2008, the specific retention was $450,000 with statutory limits. Workers' compensation claims are managed by a third-party administrator with oversight by Louisville Water Company Risk Management. A reserve of $2,050,856 and $1,434,005 was established at December 31, 2011 and 2010, respectively, to provide for liability and workers' compensation claims incurred.

Changes in the liability for self-insurance at December 31, are as follows.

	2011	2010
Liability - beginning of year	$1,434,005	$1,315,640
Accruals for current year claims and changes in estimate	1,483,434	634,493
Claims paid	(866,583)	(516,128)
Liability - end of year	$2,050,856	$1,434,005

Claims and Litigation: The Company is involved in litigation, which has arisen out of operations in the ordinary course of business. While it is not possible to forecast the outcome of this litigation, it is the opinion of the Company's management, based on evaluations by outside counsel, that it will not have a material adverse effect on the financial statements of the Company.

Construction Commitments: The estimated cost to complete construction projects under contract at December 31, 2011 is approximately $32.5 million.

SUPPLEMENTAL INFORMATION

SCHEDULE OF INVESTMENTS

December 31, 2011

		Maturity	Par	Amortized Cost/ Fair Value
Bond Reserve Account – Series 2001				
U. S. Treasury Bonds	8.22%	11/15/13	$ 739,047	$ 739,047
First American Funds	0.00%		30,375	30,375
U. S. Treasury State and Local Government Fund				
U. S. Treasury Bonds	8.22%	11/15/13	1,640,143	1,640,143
Bond Reserve Account – Series 2006				
Repurchase Agreement (GIC)	2.52%	05/15/16	2,969,125	2,969,125
Bond Reserve Account – Series 2009A				
U. S. Treasury Bonds	8.22%	11/15/13	2,320,810	2,320,810
Repurchase Agreement (GIC)	3.46%	11/15/25	3,452,679	3,452,679
Bond Reserve Account – Series 2009B				
Repurchase Agreement (GIC)	3.46%	11/15/29	4,307,514	4,307,514
Depreciation Fund				
Certificate of deposit – CDARS	2.23%	06/07/12	3,106,076	3,106,076
Certificate of deposit – CDARS	2.23%	06/14/12	2,108,393	2,108,393
Bond Service Account – Series 2001				
First American Funds	0.01%		116,970	116,970
Bond Service Account – Series 2006				
First American Funds	0.01%		536,787	536,787
Bond Service Account – Series 2009A				
Fidelity Government Fund	0.06%		1,575,631	1,575,631
Bond Services Account – Series 2009B				
Fidelity Government Fund	0.06%		408,426	408,426
			$23,311,976	$23,311,976

SUMMARIZED SCHEDULE OF BOND ISSUES

December 31, 2011

2009A Series Bond Issue

The Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master Resolution date	November 10, 2009
First supplemental resolution date	November 10, 2009
Original amount	$116,220,000
Interest rate	2.25% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2019

2009B Series Bond Issue

The Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master Resolution date	November 10, 2009
Second supplemental resolution date	November 10, 2009
Original amount	$86,710,000
Interest rate	3.75% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2019

2006 Series Bond Issue

The Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master Resolution date	July 14, 1992 (as amended November 10, 2009)
Third supplemental resolution date	May 25, 2006
Original amount	$83,845,000
Interest rate	4.00% to 5.00%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2016

Sinking Fund installments for 2030 and 2031 maturity bonds:

November 15, 2030		November 15, 2031	
Year	Amount	Year	Amount
2030	$ 5,225,000	2031	$ 5,470,000

SUMMARIZED SCHEDULE OF BOND ISSUES

December 31, 2011

2001 Series Bond Issue

The Water System Revenue Bonds were issued by the Board of Water Works and are payable only from revenue of the Company.

Master Resolution date	July 14, 1992 (as amended November 10, 2009)
Second supplemental resolution date	February 13, 2001
Original amount	$ 60,300,000
Interest rate	4.00% to 4.70%
Bonds payable	November 15
Interest payable	May 15 and November 15
Call provisions in whole or in part	100% after November 15, 2011

SCHEDULE OF OUTSTANDING BOND INDEBTEDNESS AND ANNUAL DEBT SERVICE REQUIREMENTS

December 31, 2011

	2009A Bonds		
	Principal Installments	Interest	Aggregate Bond Service
Year ending December 31			
2012	$12,570,000	$4,780,350	$17,350,350
2013	12,720,000	4,497,525	17,217,525
2014	13,225,000	3,988,725	17,213,725
2015	14,935,000	3,327,475	18,262,475
2016	14,555,000	2,580,725	17,135,725
2017	3,760,000	1,852,975	5,612,975
2018	3,955,000	1,664,975	5,619,975
2019	4,170,000	1,467,225	5,637,225
2020	4,390,000	1,258,725	5,648,725
2021	4,580,000	1,083,125	5,663,125
2022	4,785,000	899,925	5,684,925
2023	5,000,000	708,525	5,708,525
2024	5,245,000	483,525	5,728,525
2025	5,500,000	247,500	5,747,500
	$109,390,000	$28,841,300	$138,231,300

	2009B Bonds		
	Principal Installments	Interest	Aggregate Bond Service
Year ending December 31			
2012	$ –	$ 4,151,305	$ 4,151,305
2013	–	4,151,305	4,151,305
2014	–	4,151,305	4,151,305
2015	–	4,151,305	4,151,305
2016	–	4,151,305	4,151,305
2017	10,405,000	4,151,305	14,556,305
2018	9,515,000	3,761,118	13,276,118
2019	8,580,000	3,380,518	11,960,518
2020	7,665,000	2,985,838	10,650,838
2021	6,730,000	2,621,750	9,351,750
2022	5,790,000	2,293,663	8,083,663
2023	4,820,000	2,004,163	6,824,163
2024	3,835,000	1,763,163	5,598,163
2025	2,805,000	1,561,825	4,366,825
2026	7,960,000	1,414,563	9,374,563
2027	7,105,000	976,762	8,081,762
2028	6,215,000	603,748	6,818,748
2029	5,285,000	277,462	5,562,462
	$86,710,000	$48,552,403	$135,262,403

SCHEDULE OF OUTSTANDING BOND INDEBTEDNESS AND

ANNUAL DEBT SERVICE REQUIREMENTS

December 31, 2011

	2006 Bonds		
	Principal Installments	Interest	Aggregate Bond Service
Year ending December 31			
2012	$ 2,460,000	$ 3,605,256	$ 6,065,256
2013	2,555,000	3,506,856	6,061,856
2014	2,655,000	3,404,656	6,059,656
2015	2,760,000	3,298,456	6,058,456
2016	2,870,000	3,160,456	6,030,456
2017	2,985,000	3,016,956	6,001,956
2018	3,110,000	2,867,706	5,977,706
2019	3,240,000	2,731,644	5,971,644
2020	3,375,000	2,585,844	5,960,844
2021	3,520,000	2,429,750	5,949,750
2022	3,675,000	2,253,750	5,928,750
2023	3,835,000	2,070,000	5,905,000
2024	4,000,000	1,878,250	5,878,250
2025	4,180,000	1,678,250	5,858,250
2026	4,365,000	1,469,250	5,834,250
2027	4,565,000	1,251,000	5,816,000
2028	4,770,000	1,022,750	5,792,750
2029	4,990,000	784,250	5,774,250
2030	5,225,000	534,750	5,759,750
2031	5,470,000	273,501	5,743,501
	$74,605,000	$43,823,331	$118,428,331

	2001 Bonds		
	Principal Installments	Interest	Aggregate Bond Service
Year ending December 31			
2012	$1,280,000	$184,395	$1,464,395
2013	1,345,000	126,795	1,471,795
2014	1,410,000	66,270	1,476,270
	$4,035,000	$377,460	$4,412,460

SCHEDULE OF OUTSTANDING BOND INDEBTEDNESS AND ANNUAL DEBT SERVICE REQUIREMENTS

December 31, 2011

	ARRA Note		
	Principal Installments	Interest	Aggregate Note
Year ending December 31			
2012	$ 74,542	$ 36,223	$ 110,765
2013	76,032	34,733	110,765
2014	77,553	33,212	110,765
2015	79,104	31,661	110,765
2016	80,686	30,079	110,765
2017	82,300	28,465	110,765
2018	83,946	26,819	110,765
2019	85,625	25,140	110,765
2020	87,337	23,428	110,765
2021	89,084	21,681	110,765
2022	90,866	19,899	110,765
2023	92,683	18,082	110,765
2024	94,537	16,228	110,765
2025	96,428	14,337	110,765
2026	98,356	12,409	110,765
2027	100,323	10,442	110,765
2028	102,330	8,435	110,765
2029	104,376	6,389	110,765
2030	106,464	4,301	110,765
2031	108,597	2,168	110,765
	$1,811,169	$404,131	$2,215,300

SCHEDULES OF OPERATION AND MAINTENANCE EXPENSES AND TAXES

Years ended December 31, 2011 and 2010

	2011	2010
Operation and maintenance expenses		
Pumping	$ 6,677,499	$ 5,998,806
Water treatment	9,125,661	9,770,912
Transmission and distribution	17,777,406	16,455,086
Customer accounts	8,398,813	8,166,767
Administrative and general	19,859,689	18,363,423
Operation expenses under applied	987,278	448,011
Total operation and maintenance expenses	$62,826,346	$59,203,005
Taxes		
Water and fire service in lieu of taxes	$14,622,803	$13,186,811
Social security taxes	2,072,096	2,009,914
State unemployment and miscellaneous taxes	37,494	21,079
Payroll taxes allocated	(2,072,096)	(2,009,914)
Total taxes	$14,660,297	$13,207,890

Corporate Information

BOARD OF WATER WORKS (as of December 31, 2011)

The Board of Water Works is composed of seven members:

- The Louisville Metro Mayor appoints all members.
- The membership is bi-partisan, with no more than 50 percent from the same political party.
- All new board members serve staggered four-year terms.
- The Louisville Metro Mayor serves as ex officio.
- Each April, the Board appoints officers of the company.

Greg Fischer
Mayor, Louisville Metro
(ex officio)

Marita Willis, Chair,
Board of Water Works
Vice President,
PNC Bank

Creighton Mershon , Vice Chair, Retired General Counsel AT&T (formerly Bell South)

John Bleidt, Lawyer
Seiler Waterman, LLC

David "Doc" Gahafer
Business Agent,
Sprinkler Fitters
Local 669

Tandy Patrick
Lawyer, Bingham
Greenebaum Doll LLC

Glenn D. Sullivan
President, The Sullivan
University System, Inc.

EXECUTIVE LEADERSHIP TEAM (left to right)

Billy Meeks – President, AFSCME Local 1683

Dave Vogel – Vice President, Customer Service

Jim Brammell – Vice President, Operations and Chief Engineer

Barbara Dickens - Vice President, General Counsel and Secretary

Greg Heitzman – President/CEO

Amber Halloran – Vice President, Finance - Treasurer

Ed Chestnut – Vice President, Administration

Gerald Martin

Ed Crooks

Gerald Martin concluded eight years of service to the Board of Water Works, serving as Chair from 2009-2011. Martin's keen attention to detail and his expertise in financial analysis helped guide the company in his years of service.

Ed Crooks, a Board of Water Works member since 2008, died unexpectedly in 2011. Crooks represented labor interests and was actively engaged in supporting our community service initiatives. Louisville Water graciously acknowledges Crooks' service.

550 South Third Street
Louisville, KY 40202
502.569.3600
www.LouisvilleWater.com

LOUISVILLE
WATER
since 1854